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FOOD AND NUTRITION SERVICE
UNITED STATES
DEPARTMENT OF AGRICULTURE

SCHOOL FOOD SERVICE
FINANCIAL MANAGEMENT
HANDBOOK
FOR
UNIFORM ACCOUNTING

STANDARD PRACTICE

10-73

JULY 1973

A SIMPLIFIED SYSTEM

FNS-105



SCHOOL FOOD SERVICE
FINANCIAL MANAGEMENT HANDBOOK
for
UNIFORM ACCOUNTING

Simplified System

United States Department of Agriculture
Food and Nutrition Service

FNS-105
July 1973

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Note: This list is an extract from the list shown in the Complete System Volume. It is intended to furnish only those appendixes from the Complete System that apply to this Simplified System Volume.

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FOREWORD

PURPOSE OF THE HANDBOOK

This handbook is intended to assist the School Food Authority and those responsible for recording and reporting the various financial activities of a school food service fund. Without an adequate accounting system to capture the financial history and present the financial status of a school food service, food service management would be reduced to memory and guesswork. The handbook describes uniform accounting systems suitable for use by all school food authorities. It may be used in whole or in part depending upon the accounting system currently in use and its ability to achieve the results described in this handbook.

CONTENT OF THE HANDBOOK

The handbook contains the following material, oriented toward the average-to-smaller school systems:

- an introduction to the principles of accounting.
- an overview of the school food service fund accounting system.
- charts and explanations of the different types of accounts used in the system.
- procedures for preparing and using reports.
- definitions of terms used.

CRITERIA FOR THE SYSTEM

The school food service accounting system described in this handbook has been designed to meet the following criteria:

1. The system must be as simple as possible, but yet must provide all required information according to generally accepted accounting principles.
2. The system must provide all types of internal information, including information for cafeteria, school, and school district managers, and external information for all other interested parties, including local, state, and federal governmental officials.

3. Although it should be simple, the accounting system must demand accuracy and internal control.
4. The system must be consistent and uniform although it crosses cafeteria and district lines. Only in this manner can local, state, and federal officials make valid comparisons between entities over long periods of time.

To meet these criteria, the system contains the following features:

- . accrual accounting.
- . double entry bookkeeping.
- . a set of procedures for:
 - . recording revenue;
 - . recording expenditures; and
 - . allocating costs.

To provide the basis for implementation of the system, this handbook specifies a set of journals and ledgers, including subsidiary ledgers, and a chart of accounts.

CHAPTER I

PRINCIPLES OF ACCOUNTING IN SCHOOL FOOD SERVICE ADMINISTRATION

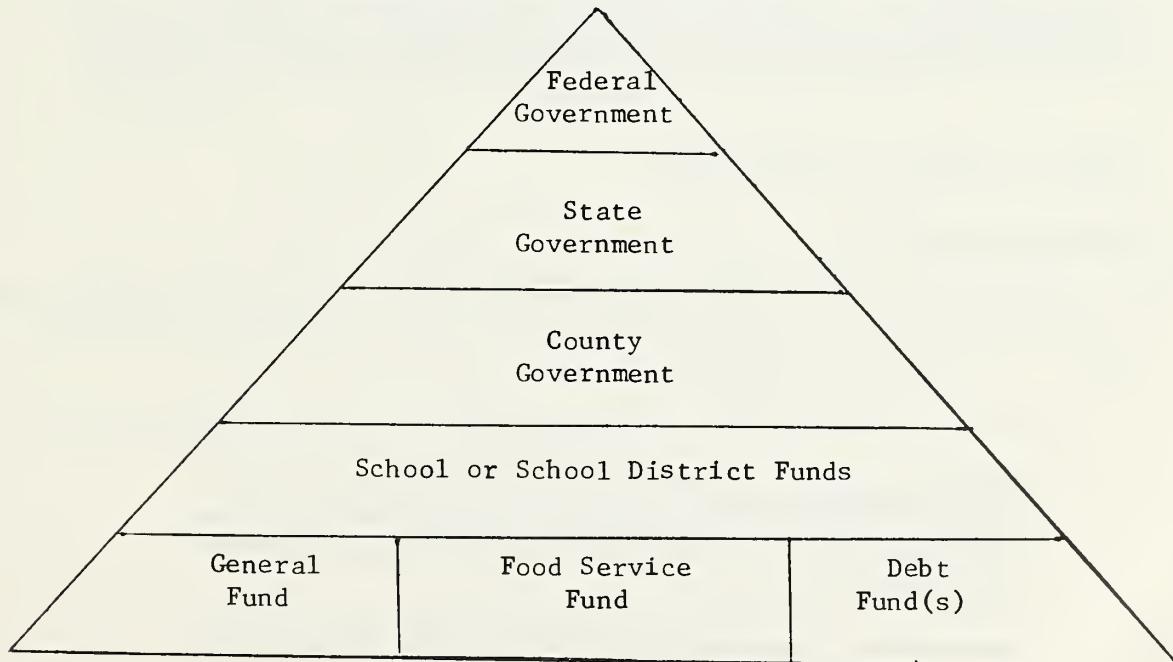
INTRODUCTION

Generally accepted accounting principles apply to all enterprises, whether large corporations or small enterprises, such as school cafeterias. No matter what their size, cafeterias own assets, owe debts, earn revenue, and incur costs. They are required to report these transactions, not only to internal management, but also to a wide range of external parties, including local, state, and Federal Government agencies, school boards and elected legislative bodies, the public (i.e., taxpayers), and the various private enterprises which may extend credit to a food service fund.

Although a school food service fund is a self-contained entity, it is also a system within many other systems. It must be responsive to the parent school district, county administration, and the state and Federal Governments and, therefore, is somewhat constrained by its relative position within these systems. This "business" or fund is shown diagrammatically in Figure I.1

FIGURE I.1

HIERARCHY OF SCHOOL DISTRICT SUBSYSTEMS



Given the natural constraints imposed by this hierarchy, school food service operations must have effective management and financial reporting. As a minimum, an accounting system for a school food service fund should perform the following functions:

- . maintain accurate records of all financial transactions;
- . allow food service management and school district administrators to plan effectively;
- . enable food service management to submit reports on financial operations to local, state, and federal agencies;
- . ensure that costs are properly applied to the school food service resources; and
- . ensure that resources are used only for their designated purposes.

This manual describes a school food service accounting system which fulfills those needs. Since, in many of these school food service operations, personnel with little or no accounting background are required to have a comprehensive understanding of the entire operation, some basic knowledge of accounting terminology and principles will be helpful to them.

To assist school personnel in understanding the debit-credit structure, Chapter I presents the basic accounting vocabulary, introduces the most common reports used in accounting, and shows how accounting information applies to food service financial operations.

ACCOUNTING TERMS AND PRINCIPLES

What is Accounting?

Accounting is the recording, summarizing, reviewing and interpreting of business transactions and their effects on the affairs and activities of an organizational unit.

Accounting for any enterprise consists of the following aspects:

- . system design - designing internal controls and recording methods for a particular entity (in this case, the system designed for school food service fund accounting);
- . bookkeeping - keeping records of the entity's financial transactions;

- auditing - testing the accuracy and propriety of these records; and
- analysis and reporting - making known to others the information contained in financial records and its significance.

This handbook introduces a bookkeeping and reporting system for use by a school food service operating entity. The auditing function will normally be carried out by the school district, by other governmental agencies, or by independent accounting firms.

The Accounting Equation

An individual's financial position is made up of the valuable possessions or resources owned by him, on the one hand, counterbalanced by his debts, on the other. The difference between the dollar measure of his resources and the dollar measure of his debts is commonly called "equity" or "net worth." (Another synonym for equity used more normally in school accounting is "fund balance.") In equation form, the principle of financial accounting is stated:

$$\begin{array}{llll} \text{ASSETS} & \text{minus} & \text{LIABILITIES} & \text{equals} \\ (\text{what is owned}) & & (\text{what is owed}) & \text{EQUITY} \\ & & & (\text{net worth or fund} \\ & & & \text{balance}) \end{array}$$

Assets

A food service's assets include all items, both tangible and intangible, of value to the operation which are currently owned by the food service fund, are being used or are available for future use, and are measurable in money. Most assets are classified as either "current" or "fixed."

Current Assets

A current asset is cash or any item that can be readily converted into cash. The following common food service items are examples of current assets:

- cash received from the sale of cafeteria meals;
- supplies in the cafeteria stockroom;
- a check received from the advance sale of lunch tickets which is awaiting deposit in a bank; and
- accounts receivable, such as money due the school food service fund from the state.

Fixed Assets

A fixed asset is an item of lasting value (usually more than one year), which is not likely to be sold for cash, is owned by the school district, and is assigned as the property of a school food service fund. An example of a fixed asset is equipment used for processing food.

Other Assets

"Other assets" is a balance sheet term for minor assets not classifiable under current asset or fixed asset headings. These assets include prepaid taxes, insurance, and deferred expenses.

Liabilities

Liabilities are any debts the school food service owes. Liabilities are classified as either "current" or "long term."

Current Liabilities

Current liabilities can be defined as those debts which will come due for payment within a year. The following items are two examples of current liabilities: (1) an amount owed for food purchased; and (2) income tax withholdings from salaries of employees which are not yet paid to the government.

Long-Term Liabilities

A long-term liability is a debt which the school district is not likely to pay within a year. For example, the amounts of mortgages for equipment which are due beyond the current accounting year are considered to be long-term liabilities.

Funds

The assets, liabilities, and fund balance (or net worth) of each of a school district's "businesses" constitutes a fund. Stated another way, a fund is an independent accounting entity with its own assets, liabilities, and fund balance. Generally, funds are established to account for the financing of specific activities of a school district's operations. The school's food service operation is one of these specific activities. A separate fund is required for school food service operations to give financial control and provide a clear presentation of revenues and expenditures.

BASIC ACCOUNTING REPORTS

Balance Sheet

The foregoing basic accounting terms and principles are essential to one of the most fundamental accounting reports, the balance sheet. The balance sheet (or position statement, as it is also known) is one of the major reports recommended for use in the analysis of the food service operations. The balance sheet itself clearly reflects the structure of the accounting mechanism and, for this reason, is presented at this point as a basis for understanding the accountant's debit and credit language.

The purpose of the balance sheet is to show the financial position of an organization at a given point in time. Basically, it consists of reporting the dollar amount of assets, usually on the left-hand side of the balance sheet, and the dollar amount of existing debts on the right-hand side along with the fund balance. Thus, the balance sheet actually represents in report form the accounting equation developed earlier. The report also contains all of the basic accounting elements of assets and liabilities which were previously discussed.

Figure I.2 is a condensed balance sheet depicting the skeletal structure of the balance sheet.

FIGURE I.2

MORRISTOWN SCHOOL
FOOD SERVICE OPERATIONS

BALANCE SHEET AS OF DECEMBER 31, 19XX

| Assets | | Liabilities and Fund Balance | |
|---------|------------------|------------------------------|------------------|
| Current | \$30,000 | <u>Liabilities</u> | |
| Fixed | 60,000 | Current | \$20,000 |
| Other | 10,000 | Long-term | <u>15,000</u> |
| | _____ | | \$35,000 |
| | <u>\$100,000</u> | <u>Fund Balance</u> | <u>65,000</u> |
| | | | <u>\$100,000</u> |

Double Entry Bookkeeping

The balance sheet illustrates the basic manner by which the business transactions of the food service operation are recorded. The method is called "double entry bookkeeping" and is one of the principles of good accounting.

In double entry bookkeeping, transactions are recorded (posted) in one type of book, called a journal, and subsequently are posted again in another book called the general ledger, which contains accounts (descriptive headings). A journal is the book in which each individual financial transaction is recorded in detail. The general ledger contains the basic group of accounts, usually with one page allotted for each account. A listing of all the accounts in the general ledger is called the chart of accounts. An illustration of each of these books is included in the Appendices with examples of how transactions are recorded.

The principles of double entry bookkeeping, which underlie proper accounting for all transactions, have been explained in terms of journals, the general ledger, and the balance sheet. The same principles apply to recording and accounting for those accounts from which an income statement is derived.

The Income Statement

The income statement is a report which has long been unique to food service accounting. Few other school funds provide this financial statement as a part of their usual reporting or accounting structure because the school food service is run more like a commercial enterprise or a business than are other school funds. The profit (excess of revenue over costs) or the loss (excess of costs over revenue) of the school food service is measured and reported using the income statement concept.

The income statement is often referred to as the operating statement, and it should portray the ongoing activities of a food service operation. It should show the relationship between expenses and sales for a given period and give some insight into the operating efficiency of the service or food preparation unit. The major report components of the income statement are revenue, expenses, and net income (the difference between revenue and expenses). Figure I.3 is an example of an income statement. More detailed forms of this report will be discussed in Chapter IV and the appendices.

FIGURE I.3

MORRISTOWN SCHOOL

INCOME STATEMENT

FOR THE PERIOD ENDING DECEMBER 31, 19XX

| | |
|--|----------------|
| Revenue | |
| Sale of Lunches | \$5,500 |
| Federal Reimbursement | 500 |
| State Reimbursement | 200 |
| | <u>\$6,200</u> |
| Less: | |
| Expenses | |
| Food and Labor Costs | \$3,100 |
| Operating Expenses | 2,600 |
| | <u>\$5,700</u> |
| Equals: Net income for the month of December, 19XX | \$ <u>500</u> |

Revenue

Income revenues for a school cafeteria are the total gross increase in fund balance before costs and expenses are deducted. Sales revenue is the total amount collectible from customers for the sale of goods and services during an accounting period.

Revenue is recorded when a sale is made or when a service is rendered, regardless of when cash changes hands. Such revenue is often referred to as accrued revenue. In accrual accounting, all revenues and expenses are recorded when they are earned or incurred, whether payment precedes, is simultaneous with, or follows in time. Therefore, revenue must be contrasted with the inflow of cash. Cash may be received from cash sales, from advance (ticket) sales, or from the payment of accounts receivable and, therefore, may be greater or less than revenues earned during any given period.

Expense

An expense results when an item of value, i.e., cash or assets (merchandise or machinery), is given up intentionally to produce revenue. Expenses may also be viewed as amounts that are subtracted from revenues on the income statement to obtain net income. They must be recorded and reported as subtractions from the revenues of the period to which they pertain.

This is why food inventory, for instance, should be "expensed" as it is used—not when it is purchased, and why food processing equipment and special food service costs should be spread, or depreciated, over the useful life of such equipment. It would be wrong to absorb the full cost of a newly purchased baking oven in the month in which it was purchased or when cash was remitted for the purchase. The cost should be spread over the periods of expected use; for example, each month for a period of several years. Food and supply inventories should be treated in a similar manner; they become "expenses" when used, rather than when purchased. Again, the concept of accrual accounting is to be applied.

Net Income

In the simplest terms, income revenue minus expenses equals net income (or net loss, if expenses are greater than revenue). Stated in terms relative to the income statement and balance sheet, net income is the earnings which food service management has produced for a specified period of time. Net income (or loss) increases (or decreases) the fund balance on the balance sheet for an accounting period.

PROCESSING OF ACCOUNTING TRANSACTIONS

Thus far, two fundamental accounting reports (the balance sheet and the income statement) have been defined and discussed in terms of the accounting principles relating to them. How accounting works from a bookkeeping standpoint has also been briefly discussed in terms of the books of account (the journals and the general ledger). Accounting transactions can now be examined in detail to see how they are processed and to see the relationship of debits and credits to assets, liabilities, and fund balance.

A sample set of financial books is presented below. Three types of entries (transactions) will be demonstrated: (1) entries to open, or establish, the books of account; (2) entries to show transactions as they occur during the accounting period; and (3) entries to close the books for an accounting period. The brief examples discussed below are introductory and are meant to demonstrate the accounting principles already explained. More detailed entries will be illustrated in the specific chapters dealing with detailed food service operating procedures.

Opening of the Books of Account

It is assumed that the school year has just started and that it will be necessary to establish the various asset, liability, and fund

balance accounts. A hypothetical food service fund has the following assets and liabilities at this time:

| <u>Assets</u> | <u>Liabilities and Fund Balance</u> |
|-----------------------------------|--|
| <u>Current Assets</u> | <u>Current Liabilities</u> |
| Cash in Bank \$20,000 | Accounts Payable \$ 8,500 |
| Change Funds 2,000 | Salaries Payable <u>15,000</u> |
| Due from Federal Government 8,000 | Total Current Liabilities \$23,500 |
| Due from State Government 3,000 | |
| <u>Fixed Assets</u> none | <u>Long Term Liabilities</u> none |
| <u>Other Assets</u> none | <u>Fund Balance</u> <u>9,500</u> |
| Total Assets <u>\$33,000</u> | Total Liabilities and Fund Balance <u>\$33,000</u> |

The total liabilities are subtracted from the total assets, and the difference (\$9,500) is the fund balance. With this information, it is possible to prepare an opening entry in a general journal from a journal voucher and, subsequently, in the general ledger. The sequence and explanation of required events follows.

1

To simplify the explanation, no fixed assets or long-term liabilities have been presented in this example.

Recording in the Journal

The beginning asset, liability, and fund balance accounts are recorded. Figure I.4 shows the balance recorded on a journal voucher.

FIGURE I.4

THE JOURNAL VOUCHER

| Approved by: | | Posted by: | Number |
|--------------|--|-------------|--------------|
| Date Posted: | | | |
| Date | Account Title and Explanation | Account No. | Debit Amount |
| July 1, 19XX | Cash in Bank | 1010D | 20,000 |
| | Change Funds | 1030D | 2,000 |
| | Due from Federal Government | 1130D | 8,000 |
| | Due from State Government | 1131D | 3,000 |
| | Accounts Payable | 2010C | 8,500 |
| | Salaries Payable | 2020C | 15,000 |
| | Fund Balance | 2710C | 9,500 |
| | to record assets, liabilities and fund balance as of July 1, 19XX | | |

Recording the opening entries in the journal from the journal voucher is a straightforward procedure as follows:

- . The date all opening entries are made is posted.
- . Those accounts which will be entered as debit amounts are written at the left margin in the "Account Title and Explanation" block; the accounts to be credited are indented in this block.
- . A block entitled "Post Ref." (posting reference) on the journal is used to record the individual general ledger account to which each journal line entry is to be posted (entered).
- . Debit and credit amounts are posted in the appropriate column—assets are entered in the debit column, and liabilities and fund balance are entered in the credit column.

The above journal voucher introduces the accounting terms "debit" and "credit." The following chart is provided to guide the reader who is unfamiliar with debits and credits and their use.

| | <u>When Debited</u> | <u>When Credited</u> | <u>Normal Account Balance</u> |
|-----------------------------------|---------------------|----------------------|-------------------------------|
| Asset Account Balances | increase | decrease | debit |
| Liability Account Balances | decrease | increase | credit |
| Fund Account Balances | decrease | increase | credit |
| Income Account Balances | decrease | increase | credit |
| Cost and Expense Account Balances | increase | decrease | debit |

The fundamental rule that "debts equal credits" may never be violated no matter how complex a transaction is. The general ledger is so constructed that each account will have two sides (debit side and credit side) with debits recorded on one side and credits on the other. As shown above, the nature of the account determines the side to be used for increases or decreases. Note that the side increased is also the side of the normal account balance.

Posting to the General Ledger

After the journal has been posted, the entries are posted to the general ledger, as illustrated in Figure I.5.*

Note that each account is maintained on a separate page in the general ledger. The following cross-reference information is posted in the general ledger:

- . Date - the same date that appears in the journal;

* Any general ledger account numbering system can be used for identifying general ledger accounts. The numbering system usually depends upon what is used in a particular school system or within a district. The numbering system used in this manual is for illustrative purposes only.

**POSTING FROM A JOURNAL
TO THE GENERAL LEDGER ACCOUNTS**

General Ledger Accounts

THE JOURNAL
(EXAMPLES OF ENTRIES)

| Date | Account Title and Explanation | Post Ref. | Debit Amount | Credit Amount |
|--------------|--|-----------|--------------|---------------|
| July 1, 19XX | Cash in Bank | 1010 | 20,000 | — |
| | Change Funds | 1030 | 2,000 | — |
| | Due from Federal Government | 1130 | 8,000 | — |
| | Due from State Government | 1131 | 3,000 | — |
| | Accounts Payable | 2010 | | 8,500 |
| | Salaries Payable | 2020 | | 15,000 |
| | Fund Balance | 2710 | | 9,500 |
| | to record assets, liabilities, and fund balance as of July 1, 19XX | | | |

| Account #1010 Title - Cash in Bank | | | | Page 1 | |
|------------------------------------|-------------------------|------|--------------|---------------|--|
| Date | Description | Ref. | Debit Amount | Credit Amount | |
| July 1 | Balance Carried Forward | J1 | 20,000 | | |
| Account #1030 Title - Change Funds | | | | Page 2 | |
| July 1 | Balance Carried Forward | J1 | 2,000 | | |

| Account # 1030 | | Title - Change Funds | | Page 2 | |
|----------------|-------------------------|------------------------------|-------|--------|--|
| July 1 | Balance Carried Forward | J1 | 2,000 | | |
| — | — | — | — | | |
| — | — | — | — | | |
| — | — | — | — | | |
| Account # 1130 | | Title - Due from Fed. Govt. | | Page 3 | |
| July 1 | Balance Carried Forward | J1 | 8,000 | | |
| — | — | — | — | | |
| — | — | — | — | | |
| — | — | — | — | | |
| Account # 1131 | | Title - Due from State Govt. | | Page 4 | |
| July 1 | Balance Carried Forward | J1 | 3,000 | | |
| — | — | — | — | | |
| — | — | — | — | | |
| — | — | — | — | | |

| Account # | 2010 | Title - Accounts Payable | Page 5 |
|-----------|-------------------------|--------------------------|--------|
| July 1 | Balance Carried Forward | J1 | 8,500 |

| <u>Account #</u> | <u>2020</u> | <u>Title - Salaries Payable</u> | <u>Page 6</u> |
|------------------|-------------------------|---------------------------------|---------------|
| July 1 | Balance Carried Forward | J1 | 15,000 |

| Account # | 2710 | Title - Fund Balance | Page <u>2</u> |
|-----------|-------------------------|----------------------|---------------|
| July 1 | Balance Carried Forward | J1 | 9,500 |

- . Description - a brief description of the purpose of the entry when appropriate; and
- . Ref - the journal page on which the entry was originally made.

Ledger debit and credit amounts must match the journal debit and credit amounts. When each line of the opening entry in the journal has been posted to the general ledger, the opening procedure is completed, and the books of account are ready to receive the first month's financial transactions.

Processing of Transactions

To illustrate the steps involved in processing transactions, it is assumed that the following financial transactions are made (refer to Figures I.6 and I.7 to follow the transactions):

1. On September 1, 19XX, \$150 worth of food is purchased for serving on September 2, 19XX.
2. On September 2, 19XX, \$200 in cash is received from the cafeteria cashier from the sale of meals and deposited in the bank, and all the food inventory is used for serving.
3. On September 3, 19XX, the Federal Government reimburses the school food service fund for \$1,000.
4. On September 4, 19XX, the State Government reimburses the school food service fund for \$750.

Ledger accounts are used to accumulate revenues and expenditures during the month and are posted to the general ledger either in total or by individual amounts. At the end of the month, the difference between revenues and expenditures is calculated, and this difference is computed to the fund balance account. Transaction posting to a journal during the month is as described below.

FIGURE I.6

EXAMPLES OF ENTRIES
TO THE GENERAL LEDGER

| <u>Date</u> | <u>Account Title and Explanation</u> | <u>Post Ref.</u> | <u>Debit Amount \$</u> | <u>Credit Amount \$</u> |
|---------------|--|------------------|------------------------|-------------------------|
| July 1, 19XX | Cash in Bank | 1010D | 20,000 | |
| | Change Funds | 1030D | 2,000 | |
| | Due from Federal Government | 1130D | 8,000 | |
| | Due from State Government | 1131D | 3,000 | |
| | Accounts Payable | 2010C | | 8,500 |
| | Salaries Payable | 2020C | | 15,000 |
| | Fund Balance | 2710C | | 9,500 |
| | to record assets, liabilities and fund balance as of July 1, 19XX. | | | |
| Sept. 1, 19XX | Food Inventory | 1210D | 150 | |
| | Accounts Payable | 2010C | | 150 |
| Sept. 2, 19XX | Cash in Bank | 1010D | 200 | |
| | Sales to Pupils | 3010C | | 200 |
| Sept. 2, 19XX | Food Costs | 4600D | 150 | |
| | Food Inventory | 1210C | | 150 |
| Sept. 3, 19XX | Cash in Bank | 1010D | 1,000 | |
| | Due from Federal Government | 1130C | | 1,000 |
| Sept. 4, 19XX | Cash in Bank | 1010D | 750 | |
| | Due from State Government | 1131C | | 750 |

As can be seen from Figure I.6, transaction posting is performed by the same method as that used to make the opening journal entries. The subsequent general ledger posting would appear as shown in Figure I.7.

FIGURE 1.7
 TRANSACTION POSTING TO THE GENERAL LEDGER

Account # 1010

Title-Cash in Bank

Page 1

| Date | Description | Ref. | Debit Amount | Credit Amount | Balance |
|---|---------------------------------------|------|--------------|---------------|---------------|
| July 1 | Balance carried forward | J1 | 20,000 | | |
| Sept. 2 | Revenue from Sales to Pupils | J1 | | 200 | |
| Sept. 3 | Reimbursement from Federal Government | J1 | | 1,000 | |
| Sept. 4 | Reimbursement from State Government | J1 | 750 | | D 21,950 |
| Account # <u>1030</u> Title- <u>Change Funds</u> | | | | | Page <u>2</u> |
| July 1 | Balance carried forward | J1 | 2,000 | | D 2,000 |
| Account # <u>1130</u> Title- <u>Due from Federal Government</u> | | | | | Page <u>3</u> |
| July 1 | Balance carried forward | J1 | 8,000 | | |
| Sept. 3 | Reimbursement received | J1 | | 1,000 | D 7,000 |
| Account # <u>1131</u> Title- <u>Due from State Government</u> | | | | | Page <u>4</u> |
| July 1 | Balance carried forward | J1 | 3,000 | | |
| Sept. 4 | Reimbursement received | J1 | | 750 | D 2,250 |
| Account # <u>1210</u> Title- <u>Inventory Food</u> | | | | | Page <u>5</u> |
| Sept. 1 | Purchases | J1 | | 150 | |
| Sept. 2 | Consumed for Sept. 2 serving | | | 150 | -0- |
| Account # <u>2010</u> Title- <u>Accounts Payable</u> | | | | | Page <u>6</u> |
| July 1 | Balance forward | | | 8,500 | |
| Sept. 1 | Food purchases | J1 | | 150 | C 8,650 |
| Account # <u>2020</u> Title- <u>Salaries Payable</u> | | | | | Page <u>7</u> |
| July 1 | Balance forward | | | 15,000 | C 15,000 |
| Account # <u>2710</u> Title- <u>Fund Balance</u> | | | | | Page <u>7</u> |
| July 1 | Balance forward | | | 9,500 | C 9,500 |
| Account # <u>3010</u> Title- <u>Sales to Pupils</u> | | | | | Page <u>8</u> |
| Sept. 2 | Revenue received | J1 | | 200 | C 200 |
| Account # <u>4600</u> Title- <u>Food Costs</u> | | | | | Page <u>9</u> |
| Sept. 2 | From inventory | | | 150 | D 150 |

Transactions involving the receipt of cash from the State and Federal Governments included increasing one current asset (cash) and decreasing another (accounts receivable). No revenue accounts were affected by either transaction, because the revenue was recognized in a prior accounting period, probably when a reimbursement claim was submitted by the school district. The accounts receivable and revenue accounts were increased at that time. This procedure illustrates the accrual method of accounting. Cash was not recognized as revenue when it was received (in these two instances, on September 3 and September 4). Revenue was recognized when an amount became due to the food service fund. In contrast, the September 2 transaction shows revenue being recorded on the day cash was received from pupils and deposited in the bank. In this case, the cash was received when the income was earned. Another example of how accrual accounting works is that the food cost is recognized when consumed even though cash has not been expended.

Trial Balance

A trial balance should be prepared at the end of each month (or other accounting period) to expose bookkeeping errors and to aid in preparing financial statements. The trial balance is merely a listing of all the ledger account balances in account order. It is called a trial balance because it is the first attempt after the ledger is posted to prove that the debits and credits balance (i.e., that they equal each other).

The following is a trial balance of the transactions posted to the general ledger in Figure I.7.

Trial Balance

| Account Number | Description | Debit | Credit |
|----------------|-----------------------------|-----------------|-----------------|
| 1010 | Cash in Bank | \$21,950 | |
| 1020 | Change Funds | 2,000 | |
| 1130 | Due from Federal Government | 7,000 | |
| 1131 | Due from State Government | 2,250 | |
| 1210 | Inventory Food | -0- | |
| 2010 | Accounts Payable | | \$ 8,650 |
| 2020 | Salaries Payable | | 15,000 |
| 2710 | Fund Balance | | 9,500 |
| 3010 | Sales to Pupils | | 200 |
| 4600 | Food Costs | 150 | |
| | | <u>\$33,350</u> | <u>\$33,350</u> |

Closing of Entries

At the end of each accounting period, the net income or loss is transferred informally to the fund balance account when the income statement and balance sheet are prepared. However, at the end of an accounting year, the transfer of net income or loss is made formally on a journal voucher of closing entries.

The closing entries are prepared by making an entry to each of the income and expense accounts to bring each account balance to zero. The balance amount (which is the difference between the debits and credits necessary to bring these amounts to zero) is debited or credited to the fund balance account. For the accounts shown in the trial balance above, the journal voucher would include the entries shown in Figure I.8.

FIGURE I.8

EXAMPLE OF CLOSING ENTRIES THE JOURNAL VOUCHER

| Approved by: _____ | | Number _____ | |
|--------------------|-------------------------------|------------------|--------------|
| Date Posted: _____ | | Posted by: _____ | |
| Date | Account Title and Explanation | Account No. | Debit Amount |
| Sept. 30 | Sales to Pupils | 3010 | 200 |
| | Food Costs | | 150 |
| | Fund Balance | | 50 |

After the postings to the above entries are made, the sales to pupils and the food costs accounts will now have a zero balance, and the fund balance account will be \$9,550. This fund balance amount of \$9,550 and the other accounts in the trial balance will make up the opening entries for the next accounting period. Remember, however, that formal entries by means of a journal voucher are made only at the end of an accounting year. This example shows only a few entries for one month and, in practical circumstances, would not be formally closed.

Additional Journals

Thus far, the accounting principles and illustrations on the use and application of journals and the general ledger have involved only one journal, the general journal. This has been done to facilitate the explanation of how these two books of account relate to each other and how transactions are posted to each type of account book. It is recommended, however, that in addition to the general journal, several different journals be used to record specific transaction types which recur frequently. These additional journals are described below:

- Purchase Journal - used to record the expenses and liabilities associated with purchases of outside goods and services;
- Disbursements Journal - essentially used as a check-book to record disbursements from the operating bank account;
- Payroll Journal - used to record all payroll related transactions; which are deposited in the bank account; and
- Receipts Journal - used to record all receipts which are deposited in the bank account.

Posting from these journals is on a monthly basis; when posting to the general ledger, the total debits and credits to each account are posted from the journals. When using totals from multiple transaction journals, the date recorded in the general ledger is the last day of the month.

In some instances it may be advisable to combine the disbursements and receipts journal into one journal called the cash receipts and disbursements journal. These journals should be combined only when it will not result in a clutter of information.

Additional Ledgers

The illustrations thus far have assumed only a single ledger, the general ledger. However, it is recommended that three subsidiary ledgers be maintained in addition to the general ledger. These subsidiary ledgers, discussed below, give detail not available in the general ledger.

- Revenue Ledger - used to record revenues at the program account level;
- Payroll Ledger - used to record labor costs at both the program and function levels; and
- Vendor Ledger - used to record purchases, accounts payable, and payments by vendor.

All transactions posted to the subsidiary ledgers also must be posted to the general ledger. Posting to the payroll and vendor ledgers should occur at the same time journal entries are made, while posting to the general ledger and revenue ledger may be postponed until the end of a month.

These procedures assume that a school food service fund consists solely of a single school cafeteria. For all funds having multiple cafeterias and central administration, a separate set of accounts should be maintained for each location.

FUND ACCOUNTING AS APPLIED TO FOOD SERVICE OPERATIONS

The school food service accounting system described in this manual uses fund accounting as one technique for achieving effective management and financial reporting. Recognizing that most food service financial procedures, including accounting, are performed at both the school and school district levels, the following overview of fund accounting will serve as a guide for food service administrators in identifying where these individual procedures are to be performed (i.e., at the individual school location or at a school district's accounting office).

Food Service as an Accounting Entity

As stated earlier, a fund is an independent accounting entity with its own assets, liabilities, and fund balance. It is established to account for financing specific activities of a school district's operations. A separate fund is required for school food service operations to give financial control and a clear presentation of revenues and expenditures.

The school food service fund is an accounting entity within the local education agency's total accounting system and has a separate self-balancing set of accounts, as if the school food service fund were a separate enterprise. For accounting purposes, transactions among the various other school funds are similar to transactions among separate enterprises.

Features of Fund Accounting System

Some of the important characteristics of this system of fund accounting include:

- Accrual Basis Fund Accounting - Under this system, revenue is recognized when it is earned (regardless of when cash is received), and expenses are recognized when purchased goods are used and/or services are performed (regardless of when cash is paid). Accrual accounting for expenditures is maintained on a continuous basis; that is, expenses are accrued and entered into the books currently throughout the month, as food and supplies are used. Similarly, accrual accounting for revenues is maintained on a continuous basis.
- Simplified Manual Bookkeeping Techniques - All procedures are specified for non-automated food service facilities; however, the basic systems can be adapted or expanded into fully automated data processing systems.
- Periodic Reporting of Financial Activities - A group of reports necessary to fulfill management information needs, as well as external reports to satisfy the needs of State and Federal Governments, are provided.
- Standardized Accounts - Accounts are defined fully to ensure consistency in reporting by all schools participating in food service programs.
- Program and Function Accounting - This type of accounting determines meal costs by type of meal served and measures the efficiency of various activities within a food service operation.

Structure of Food Service Accounts

To operate a fund accounting system as described above, it is necessary to have an appropriate, consistent scheme for classifying transactions. The following classifications are used to account for food service fund assets, liabilities, revenues, and expenses:

- . function (optional);
- . program;
- . school location; and
- . general ledger account.

Function classifications identify areas of cost responsibilities for management information at the school level. Program classifications identify types of meals served and are applied only to revenue and expense items. School location classifications identify individual cafeterias, so that reimbursement and management information may be prepared for each. General ledger account classifications identify expense, revenue, asset, liability, and fund balance accounts.

Each transaction processed through the system must be identified by at least one school location account (one for each entry of the transaction—debit and credit). Transactions affecting revenues must also be identified by an appropriate program account, while expenditure transactions must be identified by program and function accounts. A listing and definitions of all accounts appear in Chapter II.

Food Service Source Documents

Effective fiscal control in school cafeteria accounting systems depends upon the use of properly executed and approved source documents to initiate financial transactions. Source documents record the details behind individual transactions, thus providing information necessary for current financial decision making, as well as for historical traceability. Source documents permit a means for determining responsibility for individual transactions and also permit a system of checks and balances among food service employees. Although it is important that source documents be complete, they should not be cumbersome; moreover, only "need to know" information should be collected on these documents, i.e., information which is necessary for state and federal reimbursement or for management decisions.

The source documents required for a basic food service financial management system are listed and described below. Illustrations of such source documents appear in the appendixes.

Employee Time and Attendance Sheet

The employee time and attendance sheet is used to record labor hours and labor costs. The form is used by each employee to record the amount of time worked on each activity during a bi-weekly pay period. Each employee should record the number of hours worked in each program, or type of meal (e.g., type A lunch). The programs are explained in Chapter II.

Time and attendance should be recorded in units to the nearest quarter hour; total hours for an entire pay period should be recorded, in addition to the number of overtime hours worked each day during the pay period.

Purchase Requisition

A departmental manager, or other authorized person, initiates the purchase requisition (request for purchase) which requests the purchasing agent or department to buy specified goods. Two to five copies of the purchase requisition should be prepared, depending upon the system's informational needs. For example, one copy each should be prepared for the accounting and the budgeting divisions, so that encumbrances can be made against fund or budget accounts. Based on the purchase requisition, a purchase order will be prepared.

Purchase Order

The use of purchase orders is important in maintaining budgetary control over a school district's food expenditures and in maintaining visibility for future financial requirements. Purchase orders record items or services being requested, their cost, the name of the vendor being used, and the date of delivery or performance. In addition, the purchase order may indicate the reason for the order and the appropriate expense account. The order should be signed by the person initiating it.

A duplicate copy of the form or a stub at the bottom of the purchase order form (the receiving stub) may be used by the purchaser to record either partial or final receipt of goods or services which had been ordered. The receiving stub is transmitted to the accounting department to verify the receipt of goods or services before paying the vendor.

Vendor Invoice

This source document, the vendor invoice, is received by school accounting or food service operation directors from outside vendors and is used to document the delivery and cost of outside goods and services. Vendor invoices record many of the cafeteria expenses and serve as the mechanism for authorizing payment of those liabilities.

No illustration of this source document is given since its form will vary among different vendors. However, the procedures for processing, marking, and storing vendor invoices are standardized, regardless of the invoice's appearance. These procedures are explained in detail in a later chapter of this manual. Normally, the vendor invoice includes the date the invoice was received, verification of actual receipt or performance of referenced goods or services, expense accounts charged or paid, and the check number used for payment.

Purchase Listing

The purchase listing is a recapitulation of goods and services received by each school food service location. All items ordered and received to be authorized for payment are shown on the purchase listing. When used, it is usually prepared by the cafeteria manager or the employee in charge of receiving goods at a storage location. The purchase listing verifies the receipt of goods so that payment may be made. It also may be used to collect information concerning goods purchased individually by schools rather than by a central purchasing function.

Payment Voucher

Payment vouchers are internally prepared source documents which are used for authorizing payments in cases where vendor invoices (or other appropriate source documents, such as time and attendance sheets or petty cash slips) are not available. Primarily, they are used when invoices are not received from vendors or creditors, although they may be required for all disbursements at the discretion of management. The information in the payment voucher is similar to that on vendor invoices; the payment voucher also contains a description of the item delivered or service performed.

Petty Cash Slip

Petty cash slips are used to record all payments from the petty cash fund for infrequent small expenditures made by employees on behalf of the school food service fund. A petty cash slip is prepared and submitted when a disbursement is made. Petty cash disbursements may be made as reimbursements for documented expenditures or as advances, in which case the amount disbursed is subject to later adjustment.

The petty cash slips, which are accumulated and summarized on a petty cash voucher by the petty cash custodian over a period of time, also serve as the basis for replenishing the petty cash fund.

Journal Vouchers

Journal vouchers support certain low-volume transactions which are not handled through normal accounting procedures. Adjusting entries, such as month-end accruals and corrections of prior entries, do not lend themselves to documentation using standardized forms. In these cases, the journal voucher is used to record and classify the transaction and to accumulate any relevant supporting information. An explanation of the transaction can be written directly on the journal voucher; or other documents, such as worksheets, can be attached to the journal voucher.

Each journal entry must be a complete, self-balanced entry within an accounting entity. Journal entries are identified by unique locations using appropriate account numbers. The journal entries are posted directly to the general ledger from the approved journal vouchers. After posting, the journal vouchers are inserted sequentially by number into a binder which serves as a general journal file.

Cash Receipts Slip

The cash receipts slip records all cafeteria cash receipts. Each cash receipt slip indicates the purpose of the receipt, the source of the receipt, and the form of the receipt (i.e., check, cash, or money order). Daily cash receipts are summarized on the cash receipts summary form, or other food service report form, which serves as the basis for making entries into the cash receipts journal and for preparing bank deposit slips for the treasurer's account.

Food Service Report

The food service report is used by employees in the food service line (usually cashiers) to account for the number and type of meals served. These figures are posted daily and totaled at the end of each accounting period (usually at the end of a calendar month) to prepare a participation report. Figures are accumulated on the number of pupil and adult meals served and on the number of full price, free, and reduced price meals (breakfasts and type A lunches), special milk servings (in terms of half-pints), and a la carte meals.

Cash Receipts and Daily Participation Report

This report is a consolidation of individual school worksheets at the district level to report reimbursement statistics to the State or Federal Governments.

Food Service Books of Account

The books of account for the school food service fund can be grouped into two categories:

- . books of original entry - the journals which are used to record individual transactions as they occur; and
- . books of final entry - the ledgers which are used to summarize the transactions recorded in the journals.

Disbursements Journal

The disbursements journal records all disbursements made from the operating bank account. For payment of outside purchased goods and services, the normal entry in the fund's books is a debit to accounts payable (reducing the liability) and a credit to cash (reducing the balance in the operating bank account).

The disbursement journal also is used to record all other disbursements from the operating bank account, including those transactions not previously credited to accounts payable in the purchases journal. Examples of these types of transactions include payment of travel advances, travel expenses, petty cash reimbursement, etc.

Payroll Journal

The payroll journal records all disbursements made from the payroll bank account, including the following:

- net pay to each employee;
- payroll deductions for each employee;
- accrual and subsequent payment of employer payroll taxes and contributions to fringe benefits;
- appropriate expense distributions; and
- interfund liabilities.

Receipts Journal

The receipts journal records food service receipts which are deposited in the bank account. The typical entry in the receipts journal debits cash (to increase the balance in the treasurer's bank account) and credits an appropriate revenue account(s).

Revenue Ledger

The revenue ledger accumulates revenue accounts, subdivided by programs (i.e., type of meal served). The sum of revenue by programs must be reconciled monthly to revenue shown in the general ledger.

Payroll Ledger

The payroll ledger accumulates all salaries and employee benefit accounts, subdivided by program (i.e., type of meal served). The sum of costs by program and the individual employee records must be reconciled to total payroll amounts.

Food Service Financial Reports

Three basic reports are important for evaluation and control of food service operations: (1) the income and expense (operating) statement; (2) the balance sheet (position) statement; and (3) the statement of changes in financial position. They are produced by the district for each school food service location, and consolidated statements are produced for and by the district. Each is prepared after a trial balance is determined and adjusting closing entries have been made by means of a worksheet. (These procedures are described in Chapter IV.)

Income and Expense (Operating) Statement

This statement shows an individual cafeteria's income revenues and expenses for a particular period. Year-to-date figures should accompany all monthly entries, especially when automatic data processing services are available. The format for the income and expense statement should include sections for revenue, cost of food used, operating expenses (including fringe benefits), and other overhead expenses. Percentages of these major costs in relation to revenue should also appear on this report.

Balance Sheet (Position Statement)

The balance sheet should be detailed for each school location and consolidated at the district level. Both current and fixed assets, as well as current and other liabilities, should appear along with the fund balance.

Statement of Changes in Financial Position

The statement of changes in financial position shows the sources and uses of a school food service fund's financial resources. Basically, the report is an analysis of both the balance sheet and the income and expense statement. The report may be viewed as a reconciliation between accrual accounting and cash accounting. Such a reconciliation is useful because the school food service fund may show no profit or loss, although cash balances may have increased or decreased significantly. This report will help to identify the reasons for such changes. To disclose all changes in financial position properly, the report also should reflect such non-cash transactions, e.g., the acquisition of equipment in exchange for other property.

OTHER ACCOUNTING TECHNIQUES

There are several other techniques of accounting used in school food service operations, the most important being cost accounting and encumbrance accounting. Both types are discussed in greater detail in later chapters.

Cost Accounting

Cost accounting is the assembling of all costs incurred in accomplishing a particular purpose or in carrying on a particular operation. Cost accounting implies that all costs incurred by, or on behalf of, the operation are recorded and reported, so that complete cost comparisons can be made. The purpose of cost accounting is to allow management to make decisions on the operations of each location or program; each major element of cost is identified separately, so that reports contain the information most useful in decision-making.

In the school food service fund accounting system, expenses are recorded in quite a number of general ledger accounts and also are recorded for each cafeteria location. Costs which cannot be attributed directly to specific locations will be allocated so that each location is charged with a reasonable proportion of that cost. In this way, the operation of each location may be analyzed. In addition, all costs will be assigned to programs (i.e., types of meals) so that the operations of each program may be assessed independently.

Encumbrance Accounting (Optional)

General

A unique feature of accounting systems for all types of governmental agencies is the method by which strict control is maintained over the availability of funds for expenditures. To serve this purpose, a series of budgetary accounts is maintained in most governmental accounting systems. The use of these budgetary accounts is termed encumbrance (or obligation) accounting. Under the school food service fund accounting system, this type of accounting usually will be performed at the school district level.

Definitions

There are two specialized terms used in encumbrance accounting; they are defined as follows:

- appropriation - an amount of money which is authorized for expenditure by a fund for a particular purpose during a particular period of time. There are usually strong administrative or legal sanctions taken if the expenditure of funds exceeds the amount authorized for that period.
- encumbrance (obligation) - a reservation of appropriated funds which are designated to be spent for a specific purpose. The following are examples of encumbrances:

- . a binding contract for the purchase of goods or services;
- . orders placed with a vendor; and
- . a payroll.

Budgetary Accounts (Optional)

There may be a minimum of three budgetary accounts in the general ledger of any accounting system which contains encumbrance accounting.

Appropriations. This account represents the amount of appropriations available for encumbering. For the school food service fund, the appropriations will be based on the estimated amount of expenditures for the year. This account should never have a negative balance; any action that would cause it to become negative would result in strong administrative or legal action. To prevent such situations, the accountant frequently is required to certify that a proposed transaction which reduces the balance in the encumbrance account will not cause a negative balance in that account.

Encumbrances. This account represents the amount of funds encumbered to date.

Appropriations Received. This account represents the appropriation received for the accounting period. It must always be equal to the sum of the other two accounts. The appropriations received account is normally a debit balance account, while the other two are credit balance accounts.

* * *

ELEMENTS OF THE ACCOUNTING CYCLE SUMMARIZED

In this chapter, journalizing, posting, and financial statement concepts were discussed. These subjects are all major elements of the cycle of accounting activities. Put into the proper sequence, these and the remaining stages of the cycle are as follows:

1. Source Documents. Transaction data are recorded on source documents by operations personnel. These forms range from payroll attendance sheets to reimbursement claim forms. These are all fully described in the succeeding chapters.
2. Journalizing. Journalizing involves entering transactions into one of the journals, as described in this chapter.

3. Posting. Posting involves entering journalized transactions into the general ledger, as described in this chapter.

4. Trial Balance. A trial balance is prepared to test book-keeping accuracy and to aid the preparation of financial statements.

5. Work Sheet. A work sheet may be prepared at the end of a particular accounting period as a document to assist the accountant in preparing the financial statements. Various work sheets will be discussed in later chapters.

6. Adjusting Entries. Entries are made to correct previous accounting errors and affect accrual amounts, bad debts, or depreciation. These entries are journalized and posted in the same manner as transactions.

7. Closing Entries. The closing entries bring the balances of the revenue and expense accounts to zero to allow the accumulation of similar information in the next period. The net result is entered into the fund balance account. (This step is usually accomplished at the end of each year.)

8. Financial Statement. After all accounts are adjusted and up to date, the financial statements (e.g., balance sheet and income statement) are prepared.



CHAPTER II

FOOD SERVICE ACCOUNTING FOR SMALL SCHOOL SYSTEMS

INTRODUCTION

The accounting system, as described in the preceding chapter, is designed for multi-unit school districts with centralized administrative staffs. However, a great number of school districts have relatively small food service operations. That is, all operational and administrative activities occur at one or a small number of locations. Therefore, certain modifications to the multi-unit accounting system are necessary to accommodate small districts.

In many instances, the same procedures, forms, and reports which are used for the larger multi-unit school district are recommended for the small school district. Where they remain the same, they are discussed in general terms and cross-referenced to appropriate chapters. Procedures designed specifically for small districts (e.g., chart of accounts, including account definitions, recommended source documents, reports, books of account, and financial reports) are presented in detail.

STRUCTURE OF FOOD SERVICE ACCOUNTS

To operate the system described in the preceding chapter, a simple, consistent scheme of classifying transactions is necessary to provide sufficient information for management purposes. Therefore, the food service fund assets and liabilities will be classified only by general ledger account. The revenues and expenses of the fund will also be classified by general ledger account and, in addition, by program account. The general ledger accounts identify the assets, liabilities, revenue, and expenses by type. The program accounts further identify revenues and expenses by the type of meal served.

General Ledger Accounts

The general ledger accounts to be used in the small school district are shown in Figure II.1. They provide the basic financial classifications for each accounting event or transaction. In double entry bookkeeping, each transaction must affect two or more accounts, and the debit amounts must equal the credit amounts. Each general ledger account is subdivided into a "D" subaccount (e.g., 1000D) and a "C" subaccount (e.g., 1000C) to identify debits and credits. All normal activity in the general ledger accounts is expressed in terms of increasing either the "D" or "C" account.

FIGURE II.1

GENERAL LEDGER ACCOUNTS FOR THE SMALL SCHOOL DISTRICT

1000 - 2900 BALANCE SHEET ACCOUNTS

1000 - 1300 Assets Other Than Fixed

1000 - Cash on Hand
1010 - Petty Cash
1020 - Cash, Checking Account
1030 - Cash, Payroll Checking Account
1040 - Cash, Savings Account
1050 - Cash, Sinking Fund Account
1110 - Accounts Receivable, Due From _____ Fund
1130 - Accounts Receivable, Due From _____ Government
1150 - Accounts Receivable
1210 - Inventories, Food
1220 - Inventories, Supplies
1300 - Prepaid Expenses

1400 - 1500 Fixed Assets

1400 - Equipment
1500 - Vehicles
1590 - Accumulated Depreciation

1600 - 1900 Other Assets

1600 - Ticket Value Account

2000 - 2600 Liabilities

2000 - Accounts Payable
2100 - Loans Payable
2200 - Accrued Liabilities
2300 - Accounts Payable, Due to _____ Funds
2400 - Accounts Payable, Due to Federal Government
2500 - Accounts Payable, Due to State Government
2600 - Deferred Income
2650 - Employee Salaries and Benefits Payable

2700 - 2900 Fund Balance

2700 - Fund Balance
2800 - Fund Balance, Reserve For Fixed Assets

FIGURE II.1 (CONT.)

GENERAL LEDGER ACCOUNTS FOR THE SMALL SCHOOL DISTRICT

3000 - 4900 REVENUE AND EXPENSE (OR OBJECT) ACCOUNTS

3000 - 3900 Revenue Accounts

- 3100 - Sales to Pupils
- 3200 - Sales to Adults
- 3300 - Price Reduction for Reduced Price and Free Lunches
- 3350 - Price Reduction for Reduced Price and Free Breakfasts
- 3400 - Miscellaneous Revenue from Other Sources (Special Functions)
- 3500 - Revenues From State Sources, Cash Reimbursements
- 3520 - Revenue From State Sources, Other Cash Payments
- 3530 - Revenue From State Sources, Donated Goods and Commodities
- 3700 - Revenue from Federal Sources, Federal Reimbursement
- 3750 - Donated Commodities, Federal Sources
- 3800 - Local Revenue, Transfers
- 3850 - Local Revenue, Miscellaneous

4000 - 4900 Expense or Cost Accounts

- 4000 - Salaries, Regular Time
- 4100 - Salaries, Overtime
- 4200 - Employee Benefits
- 4300 - Purchased Services
- 4400 - Donated Services
- 4500 - Supplies
- 4600 - Food
- 4650 - Donated Food
- 4700 - Equipment Depreciation (Federal Assistance)
- 4800 - Equipment Depreciation (Non-federal Assistance)
- 4850 - Other Donations
- 4900 - Other Expenses

5000 - 5900 BUDGETARY ACCOUNTS

5000 - 5500 Appropriations

- 5000 - Appropriations Received

5600 - 5900 Encumbrances

- 5600 - Encumbrances (Obligations)

Each general ledger account is defined in the following paragraphs. The numbering system used is for illustrative purposes only. School districts already having food service general ledger account numbering systems may continue using them; however, the use of the system shown in this handbook is encouraged if none is currently in use.

DEFINITIONS OF GENERAL LEDGER ACCOUNTS

1000 - 1300 ASSETS OTHER THAN FIXED

Increase 0000D when assets are received.
Increase 0000C when assets are reduced.

1000 Cash on Hand - The balance as of date of cash received but not deposited in the bank.

1010 Petty Cash - The balance as of date of the authorized petty cash balance less receipts for expenditures made.

1020 Cash, Checking Account - The current balance in the fund's checking account(s), plus deposits in transit.

1030 Cash, Payroll Checking Account - This special bank account is for checks drawn in payment of payroll and is increased by monies drawn from account 1020.

1040 Cash, Savings Account - This account is for all monies deposited with the bank for the purpose of earning interest.

1050 Cash, Sinking Fund Account - The current balance of cash on hand or on deposit with any agent which is designated for the future purchase of specific fixed assets.

1110 Due From _____ Fund - The amount owed the food service fund by another fund within the school system. Separate accounts for amounts due from each fund are recommended.

1130 Due From _____ Government - The amount owed the food service fund by other governmental units. These amounts may represent grants, charges for service rendered, etc. Separate accounts for amounts due from each governmental unit are recommended.

1150 Accounts Receivable - Amounts owed to the food service fund from individuals, and organizations, other than other funds and governmental units.

1210 Inventories, Food - The cost of food on hand (whether or not it has been paid for), including the normal market cost of donated food or food purchased at a reduced price.

1220 Inventories, Supplies - The cost of supplies on hand (whether or not they have been paid for). Supplies are primarily cleaning materials, such as soap, sponges, mop heads, etc. Items such as trays, silverware, and food preparation utensils are set up as a one-time inventory and their replacement value is considered an expense.

1300 Prepaid Expenses - Amounts paid in advance for such items as insurance premiums.

1400 - 1500 FIXED ASSETS

Increase 0000D when assets are received.
Increase 0000C when assets are reduced,
(except for account 1590).

1400 Equipment - The cost of all equipment (except motor vehicles) minus amounts representing the use or loss of value of the equipment (accumulated depreciation). Items of small initial cost are to be treated as supplies and not as equipment.

1500 Vehicles - The cost of all motor vehicles minus accumulated depreciation.

1590 Accumulated Depreciation - A credit balance account in which a portion of the value of fixed assets is accumulated to represent the use, or loss of value, of the assets. Increase 1590D for reversing or adjusting amount of accumulated depreciation charged to a specific piece of equipment when the equipment is sold or otherwise disposed of. Increase 1590C to represent the loss of value due to the depreciation of an asset or group of assets, which is the amount of accumulated depreciation.

1600 - 1900 OTHER ASSETS

1600 Ticket Value Account - The full sales value of tickets on hand in the school office. The account is always offset by the deferred income account. (Refer to account 2600 Deferred Income.)

2000 - 2600 LIABILITIES

Increase 0000D when liabilities are paid.
Increase 0000C when liabilities are incurred.

2000 Accounts Payable - Balances due (other than salaries and taxes) to individuals and organizations (other than other funds and governmental units) for goods and services received but not yet paid for.

2100 Loans Payable - Balance of outstanding loans due to others.

2200 Accrued Liabilities - Amounts due to others for which the liability is incurred over time, rather than at a specific point in time. Accrued liabilities include salaries payable, employee benefits payable, annual and sick leave liability, taxes payable, and interest payable.

2300 Due to _____ Fund - The amount owed by the food service fund to another specific fund within the school system. Separate accounts for amounts due to each fund are recommended.

2400 Due to Federal Government - The amount owed by the food service fund to a Federal governmental agency. Separate accounts for amounts due to each governmental unit are recommended.

2500 Due to State Government - The amount owed by the food service fund to a state governmental agency. Separate accounts for amounts due to each governmental unit are recommended.

2600 Deferred Income - The full sales value of tickets, either on hand or already sold, for which no meals have been served. (It is offset by the Ticket Value Account, account 1600.)

2650 Employee Salaries and Benefits Payable - The amounts due for wages and salaries earned but not yet paid. Also balances due to other governmental units and business

organizations for amounts collected from employees or contributed by the employer (food service fund) for employee benefits, such as hospitalization and life insurance, FICA taxes, withholding taxes, etc.

2700 - 2900 FUND BALANCE

Increase 0000D when closing the expense accounts at the end of an accounting period.

Increase 0000C when closing the revenue accounts at the end of an accounting period.

2700 Fund Balance - The difference between total assets and total liabilities minus the reserve for fixed assets.

2800 Reserve for Fixed Assets - This account represents that portion of the fund balance reserved for the future procurement of fixed assets. It will have the same balance as the Sinking Fund Account, account 1050.

3000 - 3900 REVENUE ACCOUNTS

Increase 0000D when closing the revenue accounts to fund balance at the end of an accounting period.

Increase 0000C when revenue is earned, regardless of when payment is received.

3100 Sales to Pupils - The value of meals served to pupils during the accounting period.

3200 Sales to Adults - The value of meals served to adults during the accounting period.

3300 Price Reduction for Reduced Price and Free Lunches - A debit balance account representing the value of reductions in price of reduced price and free lunches served during the accounting period.

3350 Price Reduction for Reduced Price and Free Breakfasts - A debit balance account representing the value of reductions in price of reduced price and free breakfasts served during the accounting period.

3400 Miscellaneous Revenue from Other Sources (Special Functions) - The value of all revenue, except that from state and federal sources.

Revenue from State Sources

3500 State Cash Reimbursements - The amount of state funds earned during the accounting period which can be included as part of the state matching of federal funds requirement and also may be included in meeting the state revenue matching requirement.

3520 Other State Cash Payments - Cash funds received from the state (for labor, equipment, etc.). It excludes funds for building, alteration of buildings, and acquisition or rental of land or buildings.

3530 Value of Donated Goods and Commodities Received From State Sources - The value of goods and commodities donated to the food service fund during the accounting period. This account should be included as part of state matching and funds used requirements.

Revenue from Federal Sources

3700 Federal Reimbursement - The amount of federal reimbursement earned during the accounting period.

3750 Value of Donated Commodities Received from Federal Sources - The market value of all commodities donated to the food service fund during the period.

Revenue from Local Sources

3800 Transfers from Other Funds - The amounts which other funds are required to transfer to the food service fund during the accounting period; this includes only those funds from local sources which can be allowed for food service program purposes. There should be a separate account for each fund. This account should not include amounts that are prepayable.

3850 Miscellaneous Revenue from Local Sources - This account includes the value of donated goods and services from local sources.

4000 - 4900 EXPENSE OR COST ACCOUNTS

Increase 0000D when an expense is incurred.
Increase 0000C when an expense account is closed to fund balance at the end of an accounting period.

4000 Salaries, Regular Time - The amount earned by employees for regular hours worked during the accounting period.

4100 Salaries, Overtime - The amount earned by employees for work beyond regular hours for which an overtime premium is paid.

4200 Employee Benefits - The employer's share of all employees' benefits and payroll taxes, including FICA taxes, unemployment taxes, workman's compensation insurance, life insurance, hospitalization insurance, retirement contributions, holiday pay, annual leave, and sick leave.

4300 Purchased Services - The cost of all services purchased from outside vendors or from other funds, including laundry, trash removal, extermination, accounting, computer time, transportation (except food delivery), travel and training, utilities, repairs and maintenance, professional and technical services, rentals, and printing and binding.

4400 Donated Services - The value of services donated to the food service fund during the accounting period.

4500 Supplies - The cost of all supplies purchased during the period. At the end of the period, this account is added to the beginning inventory. The ending inventory is subtracted from this sum to determine the cost of supplies used.

4600 Food - The cost of all food purchased during the period, including processing, storage, handling, and transportation costs for food and contracted prepared meals. At the end of the period, the beginning food inventory is added to this account. The ending food inventory is subtracted from this sum to determine the cost of food used.

4650 Donated Food - The market value of USDA-donated commodities used during the accounting period.

4700 Equipment Depreciation (Federal Assistance) - Amounts charged during the period to represent the use, or value lost, of equipment and vehicles which were supplied by the Federal Government.

4800 Equipment Depreciation (Non-federal Assistance) - Amounts charged during the period to represent the use, or value lost, of equipment and vehicles which were supplied by sources other than the Federal Government.

4850 Other Donations - The market value of donated commodities, other than USDA-donated commodities, and other donations given to the school food service fund.

4900 Other Expenses - The cost of all other items during the accounting period.

5000 - 5500 APPROPRIATIONS

Increase 5000D when encumbrances are incurred or when closing the account at the end of the year.
Increase 5000C when appropriations are received.

5000 Appropriations Received - The total amount made available for expenditure during the year.

5600 - 5900 ENCUMBRANCES

Increase 5600D when closing the account at the end of the year.
Increase 5600C when encumbrances are incurred.

5600 Encumbrances - The total amount expended, or reserved for expenditure, during the year.

PROGRAM ACCOUNTS

Program accounts, shown in Figure II.2, are used to subdivide the revenue and expense accounts. The primary program categories identify the type of meal served, thus assisting in determining federal and state reimbursements.

Each time a transaction affects a revenue account, a program account must also be used. The subsidiary revenue ledger will accumulate each revenue account separately and will accumulate revenues, generated by each program, within each revenue account. If used, the special functions program account should be subdivided to identify all special functions separately. Since some revenues are not assignable to any particular meal type, a special miscellaneous revenue program account has been included for use only when it is impossible to assign revenues to other accounts.

The program accounts are used to subdivide the expense accounts through an allocation process discussed in Chapter III. A definition of each program account follows in the succeeding paragraphs.

FIGURE II.2

PROGRAM ACCOUNTS

| | |
|---|----------------------|
| 1 | Breakfast |
| 2 | Type A Lunch |
| 3 | Special Milk Program |
| 4 | A la Carte |
| 5 | Special Functions |
| 6 | Miscellaneous |

DEFINITIONS OF PROGRAM ACCOUNTS

- 1 Breakfast - The breakfast program is used to account for all sales, price reductions, and reimbursements assignable to breakfasts as defined in Section 220.8 of the National School Breakfast Program Regulations.
- 2 Type A Lunch - The Type A lunch program is used to account for all sales, price reductions, and reimbursements assignable to Type A lunches as defined in section 210.10 of the National School Lunch Program Regulations.
- 3 Special Milk Program - The special milk program account is used to accumulate all sales, price reductions, and reimbursements assignable to the National Special Milk Program.
- 4 A la Carte - The a la carte program is used to account for all regular sales, price reductions, and cash payments not included in program accounts 1, 2, or 3.
- 5 Special Functions - The special function program is used to account for all sales, price reductions, and cash payments which result from special functions. Separate subaccounts should be used to account for different functions.
- 6 Miscellaneous - The miscellaneous revenue program account is used to accumulate all revenue that cannot be assigned to any of the other program accounts. An example of such revenue would be a lump sum payment from local sources made without regard to meals served.

INVENTORY MANAGEMENT

Among the current assets, inventories are frequently the most difficult to account for. An inventory is the supply of particular types of goods or materials at a given time.

While many different food and supply items are stored and should be identified by item for reordering purposes, it is convenient to group those items into broad categories by type for accounting and reporting purposes. Therefore, the handbook contains the following inventory groupings:

- . food;
- . lunchroom supplies;
- . custodial supplies; and
- . office supplies.

In reporting the financial position of a school food service fund, two considerations are important in establishing a "value" for the inventories. The first consideration is essentially a question of determining what is physically in the inventory; the second is determining the worth of each item in the inventory. The two different methods for resolving the first consideration are perpetual inventory and periodic inventory.

Perpetual Inventory

A detailed record of each type of goods or materials is maintained. Additions and withdrawals from the inventory are recorded so that the current level of inventory can be determined immediately, and the material usage during an accounting period also can be determined readily. This system must be controlled to ensure that each withdrawal is recorded. Also, the accuracy of the inventory records should be verified regularly by actually counting the inventory (i.e., by taking a physical inventory).

When a physical inventory shows that the actual level of inventory differs from that shown on the inventory records, adjusting entries are required. These entries are handled in one of two ways:

- . The difference is recorded to increase or decrease the cost accounts directly, as if they represented normal withdrawals from or additions to inventory.
- . The difference is recorded as an increase or a decrease to a special inventory variance cost account. This method is used only when several locations (each responsible for its own costs) used the same inventory and when locations are not to be charged with costs resulting from inventory waste and spoilage.

Periodic Inventory

The level of inventory is determined by a physical count at the end of each accounting period when using this method. Each addition to an inventory is recorded in a "purchases" account, but each withdrawal is not recorded. The amount of material used during the accounting period is calculated by subtracting the amount on hand at the end of the period from the amount available during the period (i.e., the beginning inventory plus total purchases). This type of periodic inventory is best suited for smaller facilities with fast-moving inventories.

Inventory Valuation

The second problem in valuing inventory is determining the worth of each individual item in the inventory. For most items, the actual cost (based upon the most recent purchase) is used. However, this basis cannot be used for donated commodities. In this case, the estimated cost or market value (whichever is lower) of the commodities is used.

Inventories should only be maintained when items of significant value are stored until needed. For example, in many school food service funds, a small amount of office supplies might be maintained in a supply cabinet; it is not necessary to treat the supply cabinet as an inventory if the value of the supplies is minimal. However, the supply cabinet may be kept locked for security reasons when necessary.

TICKET VALUATION PROCEDURES

Techniques for controlling prepaid meal transactions are available to school food service management personnel. They are the use of prenumbered meal tickets and the establishment of a ticket value control account. The following example describes general ledger accounting entries utilizing a ticket value control account.

Assume that tickets valued at \$5,000 are on hand in the school office. These tickets will be sold to pupils and adults for meals.

The following account entries are made in the general ledger to establish the ticket value account:

| | | |
|----|--------------------------------------|---------|
| DR | ticket value account (account 1600D) | \$5,000 |
| CR | deferred income (account 2600C) | \$5,000 |

The school office secretary sells \$500 worth of tickets on the first day of the month. Cash received for these tickets is \$375,

because there was a total price reduction of \$125 for free and reduced price tickets sold. Therefore, the following entries are made:

| | | |
|----|--------------------------------------|-------|
| DR | cash (account 1000D) | \$375 |
| DR | price reduction (account 3300D) | \$125 |
| CR | ticket value account (account 1600C) | \$500 |

On the same day, tickets for meals are collected in the cafeteria service line by the cashier. The total value of these tickets is \$450 (not all of the tickets sold were collected). The entry to be made is as follows:

| | | |
|----|---------------------------------|-------|
| DR | deferred income (account 2600D) | \$450 |
| CR | sales to pupils (account 3100C) | \$450 |

If it is a school district's policy to refund unused tickets, the entry shown below is made as refunds are given. If the total valuation of tickets refunded were \$25 and \$20 cash was actually refunded, then the following entry is made:

| | | |
|----|---------------------------------------|------|
| DR | ticket value account (account 1600D) | \$25 |
| CR | cash-checking account (account 1020C) | \$20 |
| CR | price reduction (account 3300C) | \$ 5 |

If tickets are lost, the following entry is made:

| | | |
|----|---|------|
| DR | deferred income account (account 2600D) | \$15 |
| CR | ticket value account (account 1600C) | \$15 |

Many school food service funds have both cash and ticket sales; in such cases, both of the above systems (as illustrated in Appendices A, C, and D) are used.

TICKET VALUATION ACCOUNT-END-OF-YEAR ACCOUNTING

At the end of the school year, unsold tickets should be accounted for in the ticket valuation account. It is recommended that an accounting of unsold tickets be made at more frequent intervals, possibly monthly or quarterly, under conditions that are comparable to those in the following example.

At the end of the school year, there were 1,000 unsold tickets on hand, valued at \$.50 each. However, the accounting entries for the year show an ending balance in the ticket value account, #1600, of \$600.00. The following computation and entry would be required.

Computation of Tickets Physically on Hand:

| | | |
|----------------|---|----------|
| 1,000 @ \$.50 | = | \$500.00 |
|----------------|---|----------|

| | | |
|----------------------------|---|---------------|
| Book value of account 1600 | = | <u>600.00</u> |
|----------------------------|---|---------------|

| | | |
|-----------------------------|---|-----------------|
| Shortage of tickets on hand | = | <u>\$100.00</u> |
|-----------------------------|---|-----------------|

A journal voucher would have to be prepared for approval showing the following entry.

| | <u>Account No.</u> | <u>Debit</u> | <u>Credit</u> |
|----------------------|--------------------|--------------|---------------|
| Deferred Income | 2600D | \$100.00 | |
| Ticket Value Account | 1600C | | \$100.00 |

After being approved, the journal voucher should be journalized and then posted to the general ledger.

At this time the ticket value account and the deferred income account should theoretically have equal account balances; however, their balances will likely differ because: (1) some students will either lose or not use some tickets, and the deferred income will not have received the entry for the food sale; (2) there may be some errors in accounting entries; and (3) the adjustment to the ticket value account, as shown above, is affecting the deferred income account. Therefore, the deferred income account will also require a journal voucher adjustment.

The procedure for adjusting the deferred income account should be under conditions comparable to those in the following example.

At the end of the school year, after notice has been given to all students to claim refunds (if a refund policy is practiced), the ticket valuation account is adjusted to \$500.00, and the deferred income account now has a book balance of \$750.00. The deferred income account should now be adjusted to the ticket valuation account balance and would be computed as follows.

| | |
|------------------------------|--------------|
| Deferred income book balance | \$750 |
| Ticket value account balance | 500 |
| Adjustment required | <u>\$250</u> |

A journal voucher would have to be prepared for approval showing the following entry.

| | <u>Account No.</u> | <u>Debit</u> | <u>Credit</u> |
|-----------------------|--------------------|--------------|---------------|
| Deferred Income | 2600D | \$250.00 | |
| Miscellaneous Revenue | 3400C | | \$250.00 |

If there is only \$250 in the deferred income account because of earlier ticket counting errors, this difference between \$500 of ticket valuation on hand, must be absorbed as an expense. The entry would be as follows:

| | <u>Account No.</u> | <u>Debit</u> | <u>Credit</u> |
|-----------------------|--------------------|--------------|---------------|
| Miscellaneous Revenue | 3400D | \$250.00 | |
| Deferred Income | 2600C | | \$250.00 |

PAYROLL ACCOUNTING

Payroll accounting follows a general pattern of events that is only changed by local and state tax laws and payroll procedures of the organizational entity. Based on this premise, the following sequence of events is being used to explain payroll accounting. (Personnel record keeping is not included except where an overlap may be involved.)

- timekeeping;
- gross pay computation;
- payroll deduction computation;
- net pay computation;
- payroll journal entries;
- general and payroll ledger posting; and
- employee payroll record completion.

Timekeeping

The time and attendance record in Appendix H is recommended for compiling each employee's time worked where a two-week payroll base period is used. If the school uses other than a two-week period, this form should be modified accordingly. The specifications given in Appendix H apply for completing the time and attendance report regardless of the pay period used.

Gross Pay Computation

At the end of each time reporting period, gross pay computation must be made for each employee. The pay computation will fall into two major categories: (1) salaried employees who receive the same gross pay each period based on their annual salary rate, and (2) hourly employees who are paid based on the number of hours worked. According to local school policy, overtime may be paid for work performed over a specified number of hours. Following the example in Appendix H, the computation for Barbara James' gross pay might be as follows:

| | <u>Hours</u> | <u>Rate</u> | <u>Amount</u> |
|----------|--------------|-------------|------------------------|
| Regular | 80 | \$2.00 | \$160.00 |
| Overtime | 10 | 3.00 | <u>30.00</u> |
| | | | <u><u>\$190.00</u></u> |

The rate of \$3.00 for overtime is 1 1/2 times the regular rate.

Payroll Deduction Computation

Federal Income Tax Withholding

With few exceptions, employers of one or more persons are required to calculate, collect, and remit to the Federal Government the income taxes of their employees. The amount of federal income tax to be withheld from an employee's wages is determined by his wages and number of exemptions. Each covered employee is required to furnish his employer with an employee's withholding exemption certificate (Form W-4, furnished by the local office of the Internal Revenue Service (IRS)).

Most employers use a wage bracket withholding table in determining federal income taxes to be withheld from an employee's gross earnings. These tables, which are prepared for weekly, biweekly, semimonthly, and monthly pay periods, are also available from the IRS.

Determining the federal income tax to be withheld from an employee's gross wages is simple when utilizing a withholding table. For example, the employee's wage bracket is found in the first two columns. Then the amount to be withheld is found on the line of the wage bracket in the column showing the number of exemptions to which the employee is entitled as claimed by him on his Form W-4.

Federal Insurance Contributions Act (FICA)

Under the Federal Insurance Contributions Act, employers are required to deduct a specified percentage of the employee's gross pay up to a certain limit. Because the law is constantly changing, specific amounts cannot be included in this handbook. However, the tax

rate for calendar year 1972 is 5.85% on \$10,800 and is imposed on the employer as well as the employee. That is, for each deduction made from the employee, the employer is required to match that amount.

In some cities and states, employers must also deduct employee city and state income taxes. When this is necessary, the city and state taxes are handled in much the same manner as the federal income taxes.

In addition to the payroll deductions for taxes, employees may individually authorize deductions for:

- U.S. savings bonds;
- health, life, or other insurance;
- loan repayments; and
- donations to charitable organizations.

Net Pay Computation

Using the previous example of Barbara James' earnings of \$190.00 for a two-week period, the following will illustrate the computations used in determining the net pay:

| <u>Type of Withholding</u> | <u>Comments</u> | <u>Amount</u> |
|----------------------------|---|-----------------|
| Federal Income Tax | Assume two exemptions and use the tax deduction table discussed previously (see Figure II.3). | \$ 18.10 |
| FICA | 5.5% of \$190.00. The deduction for FICA will stop when withholding has been made on \$10,800.00. | 10.45 |
| Local Taxes | Assume 1% of gross earnings. | 1.90 |
| Other | This deduction may be for U.S. bonds, savings, etc. | 3.75 |
| | Total deductions | \$ 34.20 |
| | Net Pay (\$190.00 - \$34.20) | <u>\$155.80</u> |

FIGURE II.3

TAX DEDUCTION TABLE

BIWEEKLY Payroll Period—Employee NOT MARRIED—Effective January 16, 1972

| And the wages are- | | And the number of withholding exemptions claimed is— | | | | | | | | | | |
|---|---------------|--|-------|-------|-------|------|------|-----|-----|-----|-----|------------|
| At least | But less than | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 or more |
| The amount of income tax to be withheld shall be— | | | | | | | | | | | | |
| \$0 | \$22 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| 22 | 24 | .30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 24 | 26 | .50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 26 | 28 | .80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 28 | 30 | 1.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 30 | 32 | 1.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 32 | 34 | 1.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 34 | 36 | 1.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 36 | 38 | 2.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| .38 | 40 | 2.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 40 | 42 | 2.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 42 | 44 | 3.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 44 | 46 | 3.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 46 | 48 | 3.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 48 | 50 | 3.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 50 | 52 | 4.20 | .10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 52 | 54 | 4.50 | .40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 54 | 56 | 4.70 | .70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 56 | 58 | 5.00 | 1.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 58 | 60 | 5.30 | 1.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 60 | 62 | 5.60 | 1.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 62 | 64 | 5.90 | 1.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 64 | 66 | 6.10 | 2.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 66 | 68 | 6.40 | 2.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 68 | 70 | 6.70 | 2.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 70 | 72 | 7.00 | 2.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 72 | 74 | 7.40 | 3.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 74 | 76 | 7.80 | 3.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 76 | 78 | 8.10 | 3.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 78 | 80 | 8.50 | 4.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 80 | 82 | 8.80 | 4.30 | .30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 82 | 84 | 9.20 | 4.60 | .60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 84 | 86 | 9.60 | 4.90 | .90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 86 | 88 | 9.90 | 5.20 | 1.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 88 | 90 | 10.30 | 5.50 | 1.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| At least | But less than | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 or more |
| 90 | 92 | 10.60 | 5.70 | 1.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 92 | 94 | 11.00 | 6.00 | 2.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 94 | 96 | 11.40 | 6.30 | 2.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 96 | 98 | 11.70 | 6.60 | 2.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 98 | 100 | 12.10 | 6.90 | 2.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 100 | 102 | 12.40 | 7.30 | 3.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 102 | 104 | 12.80 | 7.60 | 3.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 104 | 106 | 13.20 | 8.00 | 3.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 106 | 108 | 13.50 | 8.30 | 3.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 108 | 110 | 13.90 | 8.70 | 4.20 | .20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 110 | 112 | 14.20 | 9.10 | 4.50 | .50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 112 | 114 | 14.60 | 9.40 | 4.80 | .70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 114 | 116 | 15.00 | 9.30 | 5.10 | 1.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 116 | 118 | 15.30 | 10.10 | 5.30 | 1.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 118 | 120 | 15.70 | 10.50 | 5.60 | 1.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 120 | 124 | 16.20 | 11.00 | 6.00 | 2.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 124 | 128 | 16.90 | 11.80 | 6.60 | 2.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 128 | 132 | 17.70 | 12.50 | 7.30 | 3.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 132 | 136 | 18.40 | 13.20 | 8.00 | 3.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 136 | 140 | 19.10 | 13.90 | 8.70 | 4.20 | .20 | 0 | 0 | 0 | 0 | 0 | 0 |
| 140 | 144 | 19.80 | 14.60 | 9.40 | 4.80 | .80 | 0 | 0 | 0 | 0 | 0 | 0 |
| 144 | 148 | 20.50 | 15.40 | 10.20 | 5.40 | 1.30 | 0 | 0 | 0 | 0 | 0 | 0 |
| 148 | 152 | 21.40 | 16.10 | 10.90 | 5.90 | 1.90 | 0 | 0 | 0 | 0 | 0 | 0 |
| 152 | 156 | 22.20 | 16.80 | 11.60 | 6.50 | 2.40 | 0 | 0 | 0 | 0 | 0 | 0 |
| 156 | 160 | 23.10 | 17.50 | 12.30 | 7.10 | 3.00 | 0 | 0 | 0 | 0 | 0 | 0 |
| 160 | 164 | 23.90 | 18.20 | 13.00 | 7.90 | 3.60 | 0 | 0 | 0 | 0 | 0 | 0 |
| 164 | 168 | 24.70 | 19.00 | 13.80 | 8.60 | 4.10 | .10 | 0 | 0 | 0 | 0 | 0 |
| 168 | 172 | 25.60 | 19.70 | 14.50 | 9.30 | 4.70 | .60 | 0 | 0 | 0 | 0 | 0 |
| 172 | 176 | 26.40 | 20.40 | 15.20 | 10.00 | 5.20 | 1.20 | 0 | 0 | 0 | 0 | 0 |
| 176 | 180 | 27.30 | 21.20 | 15.90 | 10.70 | 5.80 | 1.80 | 0 | 0 | 0 | 0 | 0 |
| 180 | 184 | 28.10 | 22.00 | 16.60 | 11.50 | 6.40 | 2.30 | 0 | 0 | 0 | 0 | 0 |
| 184 | 188 | 28.90 | 22.90 | 17.40 | 12.20 | 7.00 | 2.90 | 0 | 0 | 0 | 0 | 0 |
| 188 | 192 | 29.80 | 23.70 | 18.10 | 12.90 | 7.70 | 3.40 | 0 | 0 | 0 | 0 | 0 |
| 192 | 196 | 30.60 | 24.60 | 18.80 | 13.60 | 8.40 | 4.00 | 0 | 0 | 0 | 0 | 0 |
| 196 | 200 | 31.50 | 25.40 | 19.50 | 14.30 | 9.10 | 4.60 | 50 | 0 | 0 | 0 | 0 |

BIWEEKLY—Not Married—Wages \$0 to 200

Payroll Journal Entries

An illustration of the payroll journal is presented in Appendix I. Information from the net payroll computation and the time and attendance records should be used for the entries into the payroll journal. The journal has the features discussed below.

Line Entries for Each Employee Within a School Location. Employees' names and pay rates are entered and used as reference information. Regular and overtime hours are entered so that earnings for the period may be calculated.

Earnings and Deductions. Columns are provided to record regular, overtime, and total (gross) earnings. Deduction columns are detailed for FICA, withholding taxes, insurance, and retirement payments and are then totaled for posting to the general ledger account. "Net Pay" and "Check Number" columns and a column for entering the pay period date (ending date of the period) are also provided.

Program and Function Journal Distribution Entries. Worksheets (Appendix I), which are part of the payroll journal, are recommended for computing distributions to programs and functions. An "Hours" column for each program and function is provided on the worksheet so that an employee's hours from his time sheet may be posted directly to this worksheet. The distributed labor dollar amount is then calculated by multiplying program, or function, hours by the employee's hourly rate. All program and function amounts are then totaled for the pay period. Employer-paid expenses also are prorated on the basis of total employee program and function dollars.

Recording Deposit into a Payroll Account. A transfer is made from the operating bank account to a payroll account for the full amount of the payroll liability, including withholding, FICA taxes, and other payments which are not immediately disbursed to payees. Salaries are paid immediately and are recorded as a disbursement from the payroll account. The remaining balance represents the withheld accounts which have yet to be paid to the government, retirement funds, etc., and which will be disbursed when they are due.

Payroll journal entries reflect payment of payroll expenses and are entered for each individual employee:

| <u>Debit</u> | <u>Credit</u> |
|-------------------------|--|
| 4000D-4100D Salaries | 1030C Cash, Payroll Checking Account |
| | 2650C Employee Benefits Payable |

Payroll journal entries reflect the employer's share of payroll taxes and fringe benefits and are entered in total for the entire payroll:

| <u>Debit</u> | <u>Credit</u> |
|------------------------|--------------------------|
| 4200 Employee Benefits | 2200 Accrued Liabilities |

Payroll journal entries reflect the replenishment of the payroll bank account for the gross amount of the total payroll, plus the employer's share of payroll taxes and employee benefits:

| <u>Debit</u> | <u>Credit</u> |
|--|-----------------------------|
| 1030 Cash, Payroll Checking Account | 1020 Cash, Checking Account |

Sample general and payroll ledger postings are shown in Appendix J.

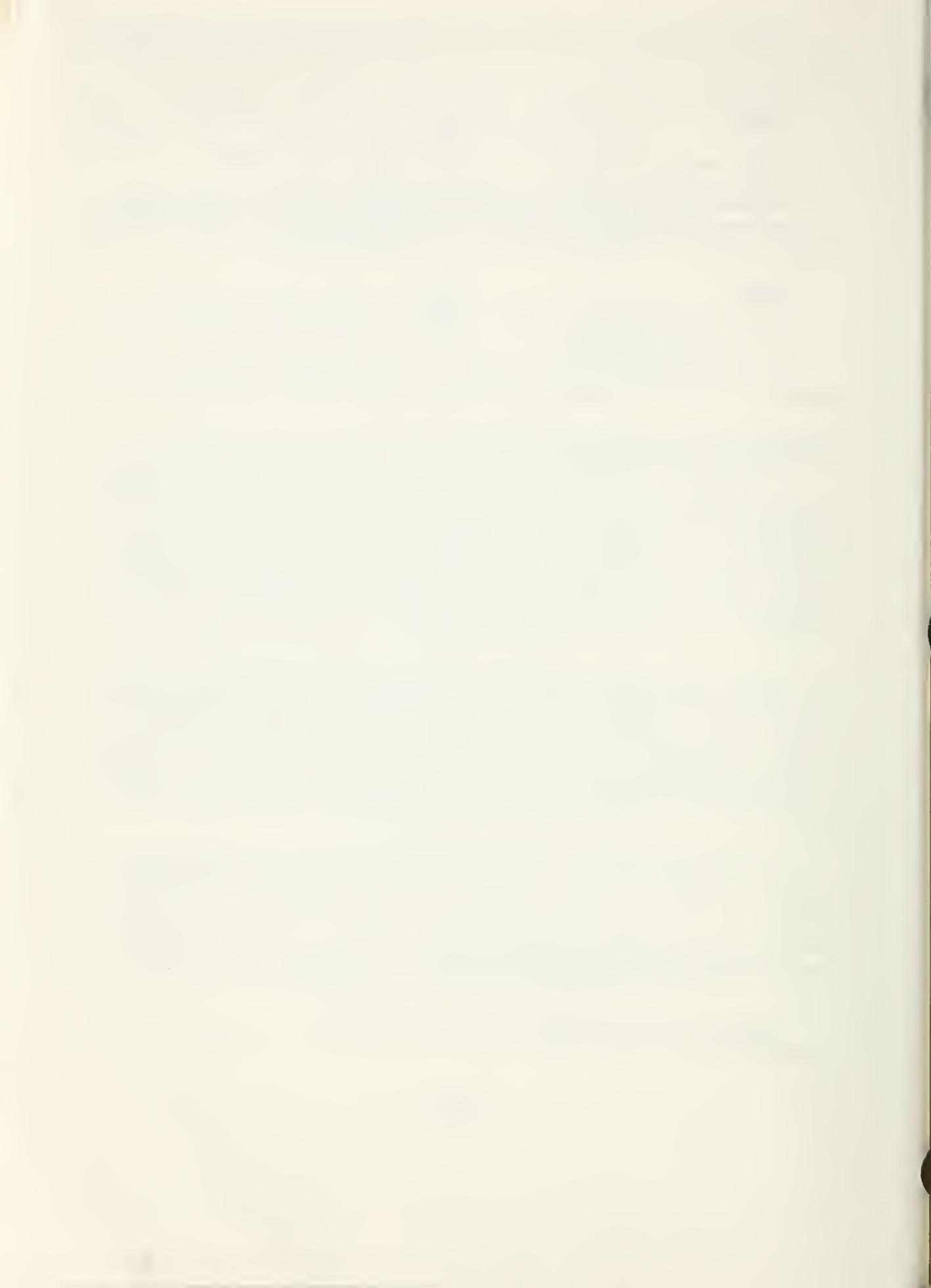
Employee Payroll Record Completion

An employee payroll record is required to report income for federal income tax and other purposes. It usually is arranged to parallel the payroll journal and is similar to the one illustrated in Appendix K. It is customary to record each pay period individually on hand-posted records and to use separate "Year to Date" columns in machine accounting. Usually, the headings of the employee payroll record provide spaces for recording all of the information needed to calculate the gross pay for an individual.

A "standard entry" line, which consists of the employee's normal gross pay, net pay, and deductions, frequently is included on the employee payroll record. The figures are entered when the employment contract has been signed and the standard deductions are determined. From that point on, the same amounts are used for each pay period unless an exception, such as overtime, a change in salary, or a change in deductions, occurs. This procedure eliminates the necessity for recalculating unchanged figures each pay period.

The employee payroll record is "footed" (i.e., each individual column is added) periodically to verify the accuracy of the postings. Official totals are usually taken at the end of the fiscal year and at the end of the calendar year. Usually, fiscal year totals are required for the annual audit of payroll records. Calendar year totals are required for reporting withholding tax or social security information to federal, state, or other involved agencies.

Additional discussion on payroll accounting is included in Chapter VII.



CHAPTER III

ALLOCATION OF COSTS AND EXPENSES

CONCEPT OF FULL COSTING

Cost allocation is the process of identifying and assigning costs to the "product" for which the costs have been incurred. In the case of school food service fund accounting, the "product" can be viewed as the particular type of meal served (program). Costs are also allocated to school locations so that complete operating reports can be prepared.

The school food service fund accounting system is predicated on the concept of full costing. This means that all costs, whether incurred directly by the school or program or indirectly on behalf of the school or program, will be charged to it.

PURPOSE OF FULL COSTING

There are two primary reasons for using the full costing method of accounting. Only by recording all costs chargeable to a fund or program can management properly control the school food service fund's total operation. For example, to make decisions, such as the normal price charged for meals, without full cost data could result in setting the price of meals too low or too high.

The second reason for using full costing is that many indirect costs of a school food service fund, or of particular programs, are reimbursable by other funds and governmental agencies. Therefore, the accounting system must provide sufficient data to ensure the appropriate amount of reimbursement.

TYPES OF COST ALLOCATIONS

Full costing in school food service fund accounting involves two different types of allocations. The first is assigning costs to individual school locations. This type of allocation will be required for such services as centrally prepared meals, centralized delivery services, centralized inventory receiving and storage, and centralized administrative services. This type of allocation may also be required for such costs as utility bills and general administrative costs which are allocated from the governmental unit to the school district. It also may be required from the food service fund to the school district where services are shared among all school fund entities.

The second type of allocation is assigning costs that have been collected and recorded in total to individual programs to achieve full program costing. Each of these allocations is discussed in detail for each of the various types of costs involved.

Allocation computations are to include costs incurred by all of a school district's funds on behalf of the school food service fund. Costs incurred beyond the local school district (such as costs incurred by the State and Federal Governments), which are not charged specifically to a school district's food service operation, are not to be considered as allocable school food service fund costs. Bases for allocation are, therefore, restricted to costs incurred by the school district and the school food service fund.

GENERAL ALLOCATION PROCEDURES

Some costs are easily identifiable with the school location or program for which they are incurred; however, many are not. Some costs are incurred for all school locations and all programs simultaneously (e.g., accounting services). Some costs may be identifiable with a particular location but not readily identifiable with specific programs at that location (e.g., the cost of equipment used to prepare food for all programs at a single school location). Other costs may be identifiable with specific programs but not with specific locations (e.g., printing and distributing weekly district-wide menus for a particular type of meal).

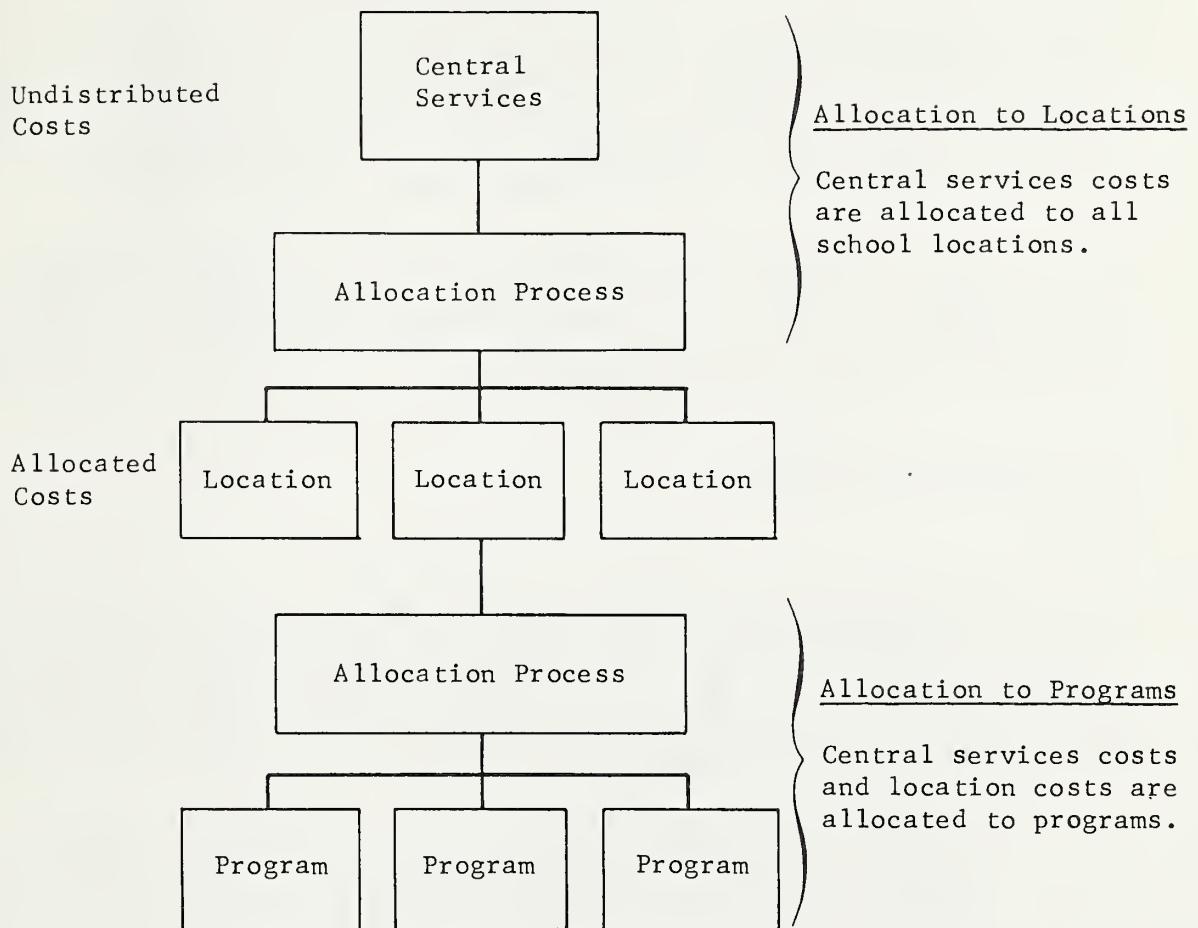
To provide school district and school food service fund management with sufficient information to manage the total food service operation properly and to prepare claims for the maximum reimbursements to which the fund is entitled, all of the costs mentioned above must be allocated to the various school locations and programs for which they were incurred. The allocation process involves determining a reasonable distribution of costs to the program, location, and cost accounts for which the cost was incurred.

The overall flow of the allocation process is shown in Figure III.1. It illustrates the two allocation processes which are necessary to allocate fully all costs to programs and locations.

Recording Allocations to Programs

When allocating to programs, no journal entries or general ledger postings are required. The allocation takes place while reports are being prepared. The allocation process involves dividing the general ledger account balance among the various locations or programs to complete the reports.

FIGURE III.1
SCHOOL FOOD SERVICES ALLOCATION PROCESSES



Allocation Checklists

When preparing reports, worksheet checklists such as those shown in Figures III.2 and III.3 will be useful for allocation purposes. Figure III.2 shows the basis for allocation of costs to programs, and Figure III.3 shows allocation of costs to locations.

When calculating allocations, worksheets such as those shown in Appendices P and Q should be used. The allocation worksheet for purchased services, indirect labor, and other expenses (Appendix P) should be used for all types of allocations, except for allocating cost of food sold, which has a special worksheet (Appendix Q).

Several of the allocation procedures require the use of figures from an income statement. The most recent income statement for the year-to-date should be used as the source for such figures. In this way, the effect of monthly fluctuations will be minimized, and a more reasonable allocation of costs will result.

ALLOCATION TO LOCATIONS

Labor

Most labor will be directly charged to the various locations because most employees work at a single school cafeteria location. However, certain district level employees in the purchasing and administration function will not be in position to charge their salaries and benefits to a particular school location account; their costs and benefits will have to be allocated to various locations.

Since this indirect labor cost from the district level employees will be relatively small in comparison to total costs, the allocation process should be as simple as possible while still ensuring that reasonable charges are made to each school location. A recommended method is to allocate this indirect labor based on cafeteria direct labor costs, i.e., the direct labor costs for a school location are calculated as a percentage of total direct labor costs for school locations. The total indirect labor cost at the district level is multiplied by this percentage.

Purchased Services

Services may be purchased at the school district level, and a double allocation may be required. First, costs should be allocated from the school district general fund to the school food service fund, and second, these costs may be subsequently allocated to various location accounts within the school food service fund. Although allocations

FIGURE III.2

CHECKLIST FOR ALLOCATING COSTS TO PROGRAMS

| Cost Element | Allocation Basis | Allocation Accomplished | | | | | | | | | | | |
|--|--|-------------------------|---|---|---|---|---|---|---|---|---|---|---|
| | | J | F | M | A | M | J | J | A | S | O | N | D |
| Cost of Food Sold | Standard Meal Costs | | | | | | | | | | | | |
| Indirect Labor | Direct Labor Cost | | | | | | | | | | | | |
| Laundry and Linen | Direct Labor Hours | | | | | | | | | | | | |
| Trash Removal | Cost of Food Sold | | | | | | | | | | | | |
| Extermination | Cost of Food Sold | | | | | | | | | | | | |
| Accounting Services | Total Revenue | | | | | | | | | | | | |
| Computer Services | Total Revenue | | | | | | | | | | | | |
| Transportation Charges | Cost of Food Used, or Total Revenue | | | | | | | | | | | | |
| Training | Number of Meals Served | | | | | | | | | | | | |
| Utilities | Number of Meals Served | | | | | | | | | | | | |
| Repairs and Maintenance | Number of Meals Served | | | | | | | | | | | | |
| Professional and Technical Services | Number of Meals Served | | | | | | | | | | | | |
| Rentals | Number of Meals Served | | | | | | | | | | | | |
| Printing and Binding | Number of Meals Served | | | | | | | | | | | | |
| Miscellaneous Purchased Services | Total Revenue | | | | | | | | | | | | |
| Depreciation Costs | Number of Meals Served | | | | | | | | | | | | |
| All Other | | | | | | | | | | | | | |

FIGURE III.3

CHECKLIST FOR ALLOCATING COSTS TO LOCATIONS

| COST ELEMENT | BASIS OF ALLOCATION FROM DISTRICT TO CAFETERIA FUND Estimated No. of Hours Worked (% of Time Spent) | BASIS OF ALLOCATION FROM CAFETERIA FUND TO LOCATIONS Number of Personnel | ALLOCATION ACCOMPLISHED | | | | | | | |
|--|---|---|-------------------------|---|---|---|---|---|---|---|
| | | | J | F | M | A | M | J | A | S |
| Indirect Labor | Average Daily Average Daily Participation Attendance | Number of Direct Hours | Direct Labor Cost | | | | | | | |
| Laundry and Linen | Average Daily Average Daily Participation Attendance | Cost of Food Sold | | | | | | | | |
| Trash Removal | Average Daily Average Daily Participation Attendance | Number of Direct Hours | | | | | | | | |
| Extermination | Average Daily Average Daily Participation Attendance | Number of Transactions or Total Revenue | | | | | | | | |
| Accounting Services | Number of Transactions or Total Revenue | Number of Transactions or Total Revenue | | | | | | | | |
| Computer Services | Number of Transactions or Total Revenue | Number of Transactions or Total Revenue | | | | | | | | |
| Transportation Charges | Food Service Cost/Total Cost | Miles or Direct Hours | | | | | | | | |
| Training | Direct Labor Hours | Direct Labor Cost | | | | | | | | |
| Utilities | Number of Square Feet | Number of Square Feet | | | | | | | | |
| Repairs and Maintenance | Number of Direct Hours | Number of Direct Hours | | | | | | | | |
| Professional and Technical Service Rentals | Number of Service Hours (Various Types of Rentals to be considered) | Number of Service Hours (Various Types of Rentals to Be Considered) | | | | | | | | |
| Printing and Binding | Food Service Revenue/Total Revenue | Direct Hours, Number of Pages, or Job Basis | | | | | | | | |
| Miscellaneous Purchased Services | Total Revenue | Total Revenue | | | | | | | | |
| Depreciation Costs | (Various Types of Equipment to Be Considered) | (Various Types of Equipment to Be Considered) | | | | | | | | |
| All Other | Total Revenue | Total Revenue | | | | | | | | |

to the school food service fund may not be made in one of the methods listed below, the following guidelines should be observed in making allocations to the various location accounts:

| <u>Type of Service</u> | <u>Basis of Allocation</u> | <u>Basis of Allocation</u> |
|------------------------|---|---|
| laundry and linen | From Other School District Funds to the School Food Service Fund | From School Food Service Fund to School Locations |
| trash removal | average daily participation calculated as a percentage of average daily attendance | number of personnel served |
| extermination | average daily participation calculated as a percentage of average daily attendance | cost of food sold at each location |
| accounting services | average daily participation calculated as a percentage of average daily attendance | number of hours spent at each school |
| computer services | number of transactions processed for the food service fund (If data are not available, use total dollar volume of the food service fund.) | number of transactions processed (If data are not available, use the total dollar volume.) |
| | total revenue of the food service fund | the "size" of each location (Computer services will normally be charged to the school food service fund for accounting services and payroll services. Thus, an allocation to each location should be made based on size. A reasonable basis for allocation is total revenue, line 17 of the income statement, shown in Chapter IV, Figure IV.1) |

| <u>Type of Service</u> | <u>Basis of Allocation From Other School District Funds to The School Food Service Fund</u> | <u>Basis of Allocation From School Food Service Fund to School Locations</u> |
|--|---|---|
| transportation charges | cost of food service (includes leased or purchased vehicles cal- culated as a percentage of the total cost of school district vehicles) | the number of miles between the school location and the point from which delivery is made (for regular uses, such as delivery of food from a warehouse to preparation sites) (For all other service, use the actual miles or hours used by each location.) |
| training | training only allo- cated when personnel not assigned to a particular location are involved (In such cases, the total food service direct labor cost is calculated as a percentage of the total school district labor cost should be used as the allocation basis.) | only allocated when personnel not assigned to a particular location are involved (In such cases, the direct labor cost at each location should be used.) |
| utilities | number of square feet of occupied floor space | number of square feet of occupied floor space |
| repairs and maintenance | number of hours actually used | number of hours actually used |
| professional and technical services | number of hours actually used, dependent upon the type of service purchased (Total direct food service hours calculated as a percentage of total dis- trict labor hours is suggested.) | dependent upon the type of service purchases (Direct hours at each location are the best basis, but other bases, such as number of meals served at each location, if appropriate, will result in a reasonable allocation.) |

| <u>Type of Service</u> | <u>Basis of Allocation</u> From Other School District Funds to The School Food Service Fund | <u>Basis of Allocation</u> From School Food Service Fund to School Locations |
|------------------------|--|---|
| rentals | usually do not require allocation (When they do, the basis depends upon the type of rental involved, e.g., hours of use, space required, number of transactions, and total food service fund revenue.) | usually will not require allocation (When they do, the basis of allocation depends upon the type of rental involved, e.g., hours of use, space required, total food service fund revenue, number of transactions, etc.) |
| printing and binding | a percentage of total school district revenue when it is not a direct charge to a school food service fund | number of direct hours job basis, or number of pages at each location may be used |
| miscellaneous | a percentage of total school district revenue when it is not a direct charge to a school food service fund | "total revenue line" (line 17 of income statement) |

Allocations of purchased services expenses should be made only when no direct charges can be made to individual location accounts. When allocations are made, the basis of allocation is used to determine a particular school location's percentage of indirect cost.

Equipment Depreciation

In most cases, equipment depreciation expense can be allocated based upon the value of the assets being depreciated. When depreciating assets cannot be charged to individual location accounts, allocation of depreciation is based on utilization of the asset (e.g., miles driven for vehicles).

All Other Costs

All other miscellaneous expenses not covered above should be allocated to school locations based on total revenue (line 17 of the income statement). These expenses will be small in relation to total expenses, and such an allocation will result in reasonable charges to each school location account.

General

To facilitate reporting to state agencies and to assist in managing various programs, it is necessary to allocate indirect costs to each of the programs. Since direct labor hours will be accumulated by program, no allocation will be required. In addition to direct labor, cost of food sold will be allocated to programs. All other costs will be allocated to programs only within the fund as a whole. Therefore, data will be available to management on these direct costs for each program at each location and for all costs for each program at the district level. The methods of allocating cost of food sold and other costs are discussed below.

Cost of Food Sold

To allocate the total cost of food sold for the school district and for each school location, standard meal costs must be used. The standard meal cost is the average expected cost of food sold for a particular type of meal. This standard cost may be based on actual food costs for various types of meals. If such data are not available, the standard cost can be computed from the known market price of the various components of each type of meal.

The allocation computations are shown in Figure III.4. A standard unit cost for each type of meal is estimated. This unit cost is multiplied by the actual number of meals served by program at each school location. By means of this multiplication, the total standard costs for all meals served is calculated. A percentage of program costs at each location is also calculated. This percentage is multiplied by total actual costs to arrive at the cost allocated to each program at each location. The cost for a given location is simply the sum of the costs allocated to the programs at that location.

Indirect Costs

Indirect costs are allocated to the various programs of the school food service fund in a similar manner to that used to allocate such costs to locations. This allocation is performed after indirect costs have been allocated from the school district to the school food service fund, as described above. The various bases for allocations to programs are discussed below.

| <u>Element of Cost</u> | <u>Basis for Allocation</u> |
|------------------------|--|
| labor | the total direct labor cost assigned to each program (All indirect labor will have to be allocated to programs.) |

FIGURE III.4

ALLOCATION OF COST OF FOOD SOLD TO PROGRAM ACCOUNTS

| 1. Sales | School A | School B | School C | Total |
|----------------|----------|----------|----------|-------|
| Breakfasts | 110 | 73 | 0 | 183 |
| Type A Lunches | 238 | 419 | 503 | 1,160 |
| Total | 348 | 492 | 503 | 1,343 |

2. Standard Meal Costs: Breakfast, \$.28; Type A Lunch, \$.54

3. Total Actual Cost of Food Sold: \$703.81

4. Total Standard Cost of Food Sold:

$$(183 \times .28) + (1,160 \times .54) = \$677.64$$

5. Standard Cost by School by Program:

| | |
|-------------------------|-------------------------------|
| School A - Breakfast | $(110 \times .28) = \$ 30.80$ |
| School A - Type A Lunch | $(238 \times .54) = \$128.52$ |
| School B - Breakfast | $(73 \times .28) = \$ 20.44$ |
| School B - Type A Lunch | $(419 \times .54) = \$226.26$ |
| School C - Type A Lunch | $(503 \times .54) = \$271.62$ |

6. Percentages of Standard Cost by School by Program:

| | |
|-------------------------|-------------------------------|
| School A - Breakfast | $30.80 \div 677.64 = 4.5\%$ |
| School A - Type A Lunch | $128.52 \div 677.64 = 19.0\%$ |
| School B - Breakfast | $20.44 \div 677.64 = 3.0\%$ |
| School B - Type A Lunch | $226.26 \div 677.64 = 33.4\%$ |
| School C - Type A Lunch | $271.62 \div 677.64 = 40.1\%$ |

7. Cost Allocations by School by Program:

| | |
|-------------------------|-----------------------------------|
| School A - Breakfast | $4.5\% \times 703.81 = \$ 31.67$ |
| School A - Type A Lunch | $19.0\% \times 703.81 = \$133.72$ |
| School B - Breakfast | $3.0\% \times 703.81 = \$ 21.12$ |
| School B - Type A Lunch | $33.4\% \times 703.81 = \$235.07$ |
| School C - Type A Lunch | $40.1\% \times 703.81 = \$282.23$ |

Element of CostBasis for Allocation

purchased services

Some purchased services may be chargeable directly to various programs, and some may be chargeable only to a limited number of programs. The various services are shown below.

laundry and linen

number of direct labor hours charge to each program

trash removal

costs of food sold charged to each program

extermination

cost of food sold charged to each program

accounting services

total revenue accumulated for each program

transportation charges

cost of food sold charged to each program for transportation charges in the delivery function (Total revenue is accumulated for each program for all other transportation charges.)

training

total number of meals served by each program

utilities

total number of meals served in each program

repairs and maintenance

total number of meals served by each program

professional and technical services

allocation basis dependent upon the nature of the service (If no other basis is logical, the number of meals served by each program should be used.)

Element of Cost

rentals

Basis for Allocation

for rentals of kitchen equipment,
the actual or estimated number of
hours used by each program. (For
vehicles, the same basis as trans-
portation charges should be used.
For other rentals, the total revenue
accumulated for each program should
be used.)

printing and binding

the number of meals served by each
program

miscellaneous purchased
services

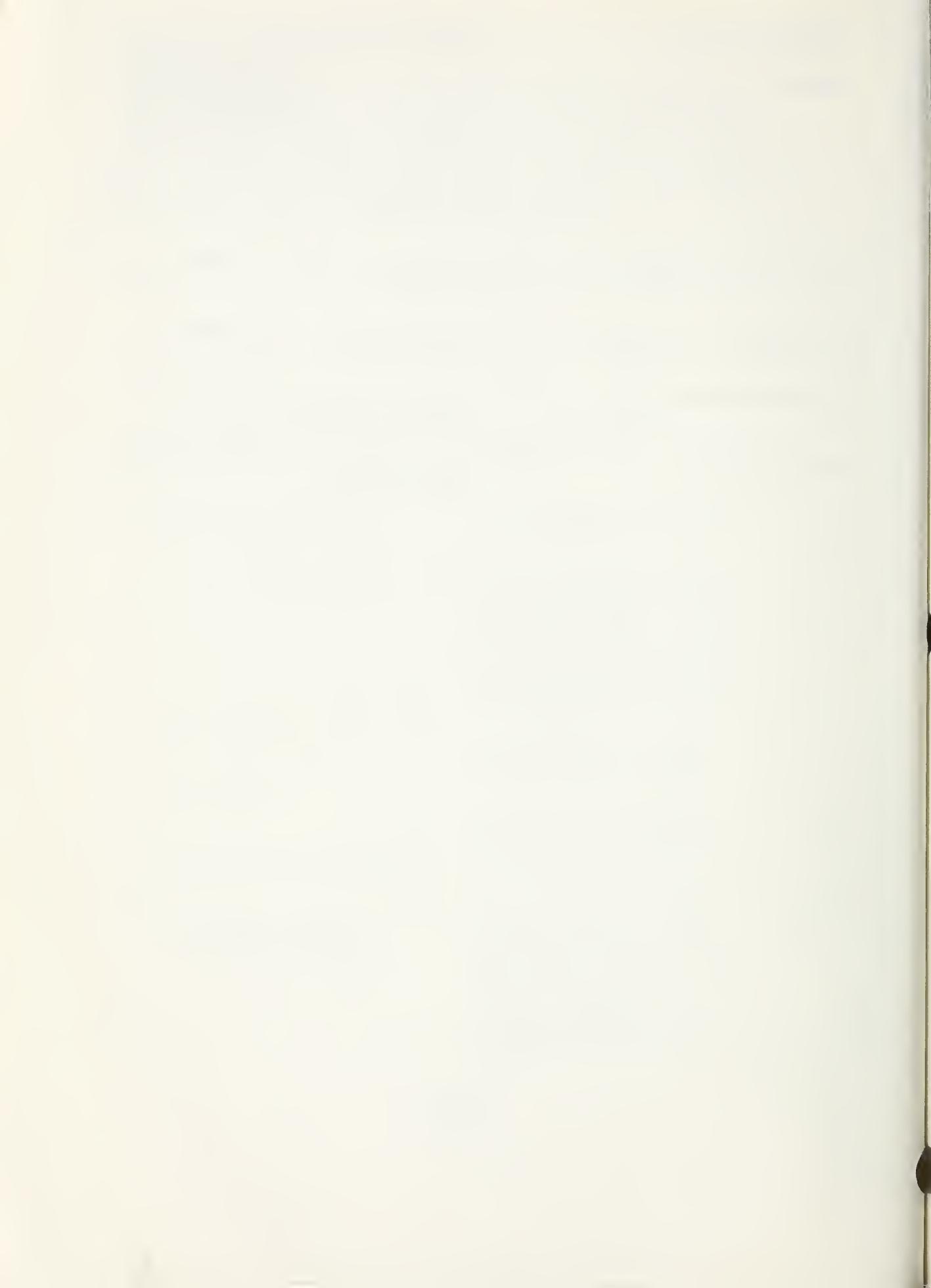
the total revenue accumulated by
each program

equipment depreciation

the total number of meals served
by each program

other expenses

the total revenue accumulated by
each program



CHAPTER IV

OPERATING REPORTS

INTRODUCTION

This chapter contains detailed instructions on the preparation and use of various operating reports. Operating reports are used internally by school food service fund management and individual cafeteria managers to monitor operations and financial conditions and to assist in preparing reports to local, state, and federal governments.

There are several operating reports that will be used by school food service fund managers. The two primary reports are the income statement and the balance sheet. The income statement summarizes financial operations during an accounting period, while the balance sheet summarizes financial conditions at the end of an accounting period. In addition to these two major reports, other operating statistics and reports will be prepared regularly. All of these are discussed below. The instructions shown in this chapter must be used in conjunction with the procedures described in Chapter III, "Allocation of Costs and Expenses."

INCOME STATEMENT

Principles of the Income Statement

The income statement (or operating statement) is a financial report that summarizes operations during a specific accounting period. It is prepared on the accounting principle of matching costs with revenues and, therefore, shows much more than the change in cash balances. The "Net Profit (or Loss)" line of the report is used as an indicator of the current "health" of the school food service fund. Also, other figures on the report, such as "sales" and "cost of food sold," are used in a similar manner. In school food service fund accounting, several income statements are prepared; statements are prepared for each school location, for the fund as a whole, and for each program, and a modified statement is prepared for each program at each school. The income statement for the individual school location is the basic report, and complete instructions for this report are given in this chapter. Instructions for other income statements are based on those for individual schools.

Preparing the Income Statement at the School Location Level

The income statement is prepared at the end of each month for two different accounting periods, the month just ended and the year-to-date. These two income statements should be prepared immediately after all

transactions for the month have been recorded. (Transactions should be posted to the accounts as soon as possible after the end of the month.) Preparation of the statements should not be delayed because some transactions may be outstanding. In no case should preparation be delayed beyond the tenth calendar day of the next month.

If, at the end of a year, a large number of adjusting entries are required, a preliminary report should be prepared by the tenth of the month and revised when final figures are available. In no other case should monthly statements be revised, unless significant changes are required. Transactions for small amounts that appear after statements have been prepared should be included as part of the current (new) accounting period, even though they actually occurred during the previous period.

A recommended format for an income statement to be used by a school food service fund or individual cafeteria is shown in Figure IV.1. Each line item for "cost of food sold," "direct labor," and "other expenses" in the report is expressed in terms of dollars and also as a percentage of "total revenue."

When using the general ledger account specified for calculating each line of the income statement, the activity for the account during the accounting period must be used unless otherwise specified. The activity is the net change in the account balance during the month (i.e., the ending balance minus the beginning balance).

The amount for each line in the income statement is calculated as follows:

| <u>Line Number</u> | <u>Method of Calculation</u> |
|--------------------|---|
| 1 | Enter the sum of the sales to pupils accounts (account 3010), except the special functions account. |
| 2 | Enter the sum of the sales to adults accounts (account 3040), except the special functions account. |
| 3 | Enter sales in special functions (program account 5) only. |
| 4 | Enter the sum of lines 1 to 3. |
| 5 | Enter the sum of all price reduction for reduced price and free meal accounts (3110 to 3119). |
| 6 | Enter the result of subtracting line 5 from line 4. |

FIGURE IV.1

INCOME STATEMENT FOR JANUARY 1972

| |
|------------|
| W.P. No. |
| Accountant |
| Date |

| Line No. | | Month | | Year to Date | |
|-----------------------|--|---------|--------|--------------|----|
| | | Amount | % | Amount | % |
| Revenue | | | | | |
| 1 | Sales: To Pupils | \$1,972 | | | |
| 2 | To Adults | 357 | | | |
| 3 | Special Functions | 0 | | | |
| 4 | Gross Sales | 2,329 | | | |
| 5 | Less: Price Reductions for Reduced Price Meals | 60 | | | |
| 6 | Net Sales Revenue | \$2,269 | | | |
| 7 | Federal Revenue: Reimbursements | 701 | | | |
| 8 | Donated Commodities | 695 | | | |
| 9 | Revenue from Federal Sources | \$1,396 | | | |
| 10 | State Revenue: Cash Reimbursements | 254 | | | |
| 11 | Other Cash Payments | 148 | | | |
| 12 | Donated Goods and Commodities | 0 | | | |
| 13 | Revenue from State Sources | \$ 402 | | | |
| 14 | Local Revenue: Transfers | 145 | | | |
| 15 | Miscellaneous | 35 | | | |
| 16 | Revenue from Local Sources | \$ 180 | | | |
| 17 | Total Revenue | \$4,247 | 100.0% | | |
| 18 | Cost of Food Sold | 1,695 | 39.9 | | |
| 19 | LABOR COSTS | 1,192 | 28.1 | | |
| 20 | Gross Profit | \$1,360 | 32.0 | | |
| Other Expenses | | | | | |
| 21 | Supplies | \$ 176 | 4.1% | | |
| 22 | Purchased Services | 759 | 17.9 | | |
| 23 | Depreciation Expense | 337 | 7.9 | | |
| 24 | Other Expenses | 82 | 1.9 | | |
| 25 | Total Other Expenses | \$1,354 | 31.9% | | |
| 26 | Net Profit | \$ 6 | .1% | | |
| | | | | \$21 | 1% |

7 Enter federal reimbursements (account 3710).

8 Enter value of donated commodities received from federal sources (account 3810).

9 Enter the sum of lines 7 and 8.

10 Enter state cash reimbursement (account 3510).

11 Enter other state cash payments (account 3520).

12 Enter value of donated commodities and goods received from state sources (account 3610).

13 Enter the sum of lines 10 to 12.

14 Enter transfers from other funds (account 3210).

15 Enter miscellaneous revenue from local sources (account 3410).

16 Enter the sum of lines 14 and 15.

17 Enter the sum of lines 6, 9, 13, and 16.

18 If a perpetual inventory system is used, enter the sum of all food cost accounts. If a periodical inventory is used, enter the amount calculated on the cost of food sold worksheet (Figure IV.2).

19 Enter the sum of the salaries (accounts 4000 - 4199) and employee benefits (accounts 4200 - 4299).

20 Enter the result of subtracting lines 18 and 19 from line 17.

21 Enter the sum of all the supplies cost accounts (4500 to 4599). If a periodical inventory system is used, enter the amount calculated by subtracting the inventory balance at the beginning of the accounting period from the inventory balance at the end of the accounting period. Then add the result of the supplies cost accounts (4500 to 4599). (A separate worksheet may be desirable for this calculation.)

22 Enter the amount calculated on the worksheet for purchased services (Figure IV.3).

23 Enter the sum of the depreciation accounts (4710 and 4720).

24 Enter the sum of the other expense accounts (4800 to 4999).

25 Enter the sum of lines 21 to 24.

26 Enter the result of subtracting line 25 from line 20.

Figures IV.2 and IV.3 are worksheet formats which are used in preparing the income statement. Figure IV.2 is used to calculate cost of food sold when a periodical inventory system is used. All food received during the month is charged to the food purchases account. A physical inventory is taken at the end of every month. The food inventory at the end of the period is subtracted from the sum of the food inventory at the beginning of the period and the food purchases accounts to yield the cost of food sold. Figure IV.3 is used to calculate purchased services. The activity in the general ledger account is recorded directly from the general ledger to the worksheet. Both worksheets must be attached to the income statement because they provide a source of detail not otherwise available.

1

Separate worksheets may be used in calculating the amounts in lines 23 and 24.

FIGURE IV.2
 COST OF FOOD SOLD WORKSHEETS
 (PERIODICAL INVENTORY METHOD)

| | |
|-----------------------------|----------------|
| 1. Beginning Food Inventory | \$1,745 |
| 2. Food Purchases | <u>1,492</u> |
| 3. Food Available | \$3,237 |
| 4. Ending Food Inventory | <u>1,542</u> |
| 5. Cost of Food Sold | <u>\$1,695</u> |

FIGURE IV.3
 WORKSHEET FOR PURCHASED SERVICES

| | |
|--|--------------|
| 4310 - Laundry and Linen | \$ 50 |
| 4320 - Trash Removal | 18 |
| 4330 - Extermination | 13 |
| 4340 - Accounting Services | 21 |
| 4350 - Computer Services | 0 |
| 4360 - Transportation Charges | 62 |
| 4370 - Utilities | 91 |
| 4380 - Repairs and Maintenance | 121 |
| 4390 - Professional and Technical Services | 375 |
| 4400 - Rentals - Equipment | 0 |
| 4410 - Printing and Binding | 0 |
| 4420 - Miscellaneous | <u>8</u> |
| Total Purchased Services | <u>\$759</u> |

Using the Income Statement

The income statement for a school food service fund is based on two important accounting concepts, accrual accounting and the reflection of all costs of operations.

Again, accrual accounting means that revenue and expenses are recorded when earned or incurred regardless of when cash is received or disbursed. Revenue is earned when meals are served, and expenses are incurred when goods or services are used. Therefore, the use of accrual accounting means that the income statement cannot be used to judge the cash position of the school food service fund. For this reason, a separate statement of changes in financial position, which is discussed below, is prepared. The use of accrual accounting also means that costs may be closely related to the revenue they generated. Therefore, the net profit figure may be used to indicate whether costs are within or are exceeding revenues.

The reflection of all costs of operations means that costs must be shown at actual market value. This means that when commodities, equipment, and labor are donated to the school food service fund or sold at a reduced price, the difference between market value and actual cost is recorded as revenue. When the commodities, equipment, or labor are used, actual market values are used to reflect such costs.

Only by using such techniques will it be possible to compare the operating results of the school food service fund in accounting periods having markedly different levels of donations. For example, a school food service fund selling meals valued at \$1,000 which uses \$400 worth of food would show food cost to be 40 percent of revenue. If 50 percent of the fund's food is donated, and the value of the donations is not recorded, revenue would be shown as \$800 and food cost as \$200, thus making food cost only 25 percent of revenue. In either case, gross profit equals \$600.

The operating results of a single accounting period are more meaningful when compared with the results of other periods, with the results of other food service funds, and with a set of standards (forecasts or budgets). Cost of food sold and direct labor within a single fund should remain fairly constant percentages of revenue over time. Explanations should be sought for any significant change which occurs in these accounts; corrective action may be required. For example, an increase in cost of food sold may be the result of poor storage conditions which cause excessive spoilage.

The Consolidated Income Statement

In addition to the income statements for each school, consolidated income statements for the entire school district for the month and for the year-to-date should be prepared. These are used to assist in preparing reports to state and federal agencies. The consolidated statements are simply the sum of the income statements of the various schools.

The Income Statement by Program

In addition to the income statements for each school and the consolidated income statement, separate income statements should be prepared for each program, except miscellaneous revenue. The breakdown of revenue by program for each school should be maintained in the ledger. Costs should be allocated to the various programs according to the procedures discussed in Chapter III.

The income statements for each program of the school district should be prepared monthly for the month just ended and the year-to-date, according to the format shown in Figure IV.4. In addition to the actual sales revenue generated, the number of meals served should also be shown. These figures are obtained from the column totals on the reimbursement voucher worksheet and are illustrated in Appendix B. The number of meals served should be divided into the cost figure for each type of meal, and the result (cost per meal) should be shown. The cost per meal figures can be used to compare the operating results of various schools within a district.

Separate income statements for each program should be prepared for each school serving more than one type of meal. These statements follow the same format as shown in Figure IV.4; however, they should only include direct costs and should end with gross profit, line 20.

THE BALANCE SHEET

Principles of the Balance Sheet

The balance sheet is a financial report that summarizes the financial condition of the school food service fund at a given point in time. It is prepared simply by measuring the value of all items owned by the fund (assets) and all items owed by the fund (liabilities). Primarily, measurement is based upon the market value at the time of procuring assets or incurring liabilities. Items such as cash, accounts receivable, and accounts payable are relatively easy to measure. Inventory is valued at cost or at market value if items are donated. Equipment

FIGURE IV.4
PROGRAM INCOME STATEMENT FOR JANUARY 1972
TYPE A LUNCH PROGRAM

W.P. NO.
ACCOUNTANT
DATE

| LINE NO. | (NO.) | MONTH | | | | | | YEAR TO DATE | | | | | |
|-----------------------|--|--------|---------|---------|--------|---------|----------------|--------------|---------|---------|---------|--------|---------|
| | | AMOUNT | AMOUNT | % | AMOUNT | % | \$ PER MEAL | NO. | AMOUNT | AMOUNT | % | AMOUNT | % |
| REVENUE | | | | | | | | | | | | | |
| 1 | SALES: TD PUPILS | 3,175 | \$ 986 | | | | | | \$4,381 | | | | |
| 2 | TD ADULTS | 425 | 179 | | | | | | 850 | | | | |
| 3 | SPECIAL FUNCTIONS | 0 | 0 | | | | | | 0 | | | | |
| 4 | GROSS REVENUE | 3,500 | 1,165 | | | | | | 5,231 | | | | |
| 5 | LESS: PRICE REDUCTIONS FOR REDUCED PRICE MEALS | 30 | 30 | | | | | 16,900 | 144 | | | | |
| 6 | NET SALES REVENUE | | \$1,135 | | | | | | | \$5,087 | | | |
| 7 | FEDERAL REVENUE: REIMBURSEMENTS | 350 | | | | | | | 1,698 | | | | |
| 8 | DONATED COMMODITIES | 348 | | | | | | | 1,676 | | | | |
| 9 | REVENUE FROM FEDERAL SOURCES | | \$ 698 | | | | | | | \$3,374 | | | |
| 10 | STATE REVENUE: CASH REIMBURSEMENTS | 127 | | | | | | | 600 | | | | |
| 11 | OTHER CASH PAYMENTS | 74 | | | | | | | 356 | | | | |
| 12 | DONATED GOODS AND COMMODITIES | 0 | | | | | | | 0 | | | | |
| 13 | REVENUE FROM STATE SOURCES | | \$ 201 | | | | | | | \$ 950 | | | |
| 14 | LOCAL REVENUE: TRANSFERS | 73 | | | | | | | 343 | | | | |
| 15 | MISCELLANEOUS | 17 | | | | | | | 40 | | | | |
| 16 | REVENUE FROM LOCAL SOURCES | | \$ 90 | | | | | | | \$ 383 | | | |
| 17 | TOTAL REVENUE | | | \$2,124 | 100.0% | \$.607 | | | | | \$9,800 | 100.0% | \$.580 |
| 18 | COST OF FOOD SOLD | | | 848 | 39.9 | .242 | | | | | 3,909 | 39.9 | .231 |
| 19 | LABOR | | | 596 | 28.0 | .171 | | | | | 2,692 | 27.5 | .160 |
| 20 | GROSS PROFIT | | | \$ 680 | 32.1 | | | | | | \$3,199 | 32.6 | |
| OTHER EXPENSES | | | | | | | | | | | | | |
| 21 | SUPPLIES | | \$ 88 | 4.1% | | | .025 | | \$ 382 | 3.9% | | | .023 |
| 22 | PURCHASED SERVICES | | 380 | 17.9 | | | .109 | | 1,760 | 18.0 | | | .104 |
| 23 | DEPRECIATION EXPENSE | | 168 | 7.9 | | | .048 | | 842 | 8.6 | | | .050 |
| 24 | OTHER EXPENSES | | 41 | 1.9 | | | .012 | | 205 | 2.1 | | | .012 |
| 25 | TOTAL OTHER EXPENSES | | | 677 | 31.9 | | | | | | 3,189 | 39.5 | |
| 26 | NET PROFIT | | | \$ 3 | .1% | | \$.607 | | | | \$ 10 | .1% | \$.580 |
| TOTAL COST PER MEAL | | | | | | | | | | | | | |

is measured in the same way as inventory, minus an estimated amount of value lost due to normal use and time (depreciation). The fund balance is simply the difference between total assets and total liabilities.

Preparing the Balance Sheet

A balance sheet should be prepared at the end of each month for each school location. In preparing these reports, only assets and liabilities actually held by the school location are used. All assets, such as cash and equipment, held centrally at the school district level are not counted.

A recommended format for the balance sheet is shown in Figure IV.5. The amount for each line is the balance in the specified general ledger account at the end of the period:

| <u>Line Number</u> | <u>Method of Calculation</u> |
|--------------------|---|
| 1 | Enter the sum of cash in bank, checking, cash in bank, savings, and petty cash (1000 series of accounts). |
| 2 | Enter due from (name of) fund (1110 series). Make a separate entry for amounts due from each separate fund. |
| 3 | Enter due from (name of) government (1130 series). Make a separate entry for amounts due from each separate government. |
| 4 | Enter accounts receivable (account 1150). |
| 5 | Enter the sum of lines 2 to 4. |
| 6 | Enter inventory, food (account 1200 series). |
| 7 | Enter inventory, supplies (account 1220). |
| 8 | Enter the sum of lines 6 and 7. |
| 9 | Enter sum of prepaid expenses (accounts 1300 to 1399). |

FIGURE IV.5

BALANCE SHEET, AS OF JANUARY 31, 1972

Assets

Current Assets:

| | | | |
|--------------|----------------------|------------|------------|
| 1 | Cash | | \$1,031 |
| Receivables: | | | |
| 2 | Due from Fund | \$2,087 | |
| 3 | Due from Government | 934 | |
| 4 | Other Receivables | <u>119</u> | |
| 5 | Total Receivables | | \$3,140 |
| Inventories: | | | |
| 6 | Food | \$1,542 | |
| 7 | Supplies | <u>216</u> | |
| 8 | Total Inventories | | \$1,758 |
| 9 | Prepaid Expenses | | 118 |
| 10 | Sinking Fund Cash | | <u>540</u> |
| 11 | Total Current Assets | | \$ 6,587 |

Fixed Assets:

| | | | |
|----|-------------------------------|----------|-----------------|
| 12 | Equipment | \$3,841 | |
| 13 | Vehicles | <u>0</u> | |
| 14 | Total Fixed Assets | | \$3,841 |
| 15 | Less Accumulated Depreciation | | <u>600</u> |
| 16 | Net Fixed Assets | | 3,241 |
| 17 | Ticket Value Account | | <u>1,000</u> |
| 18 | Total Assets | | <u>\$10,828</u> |

Liabilities

Payables:

| | | | |
|----|----------------------------|------------|------------|
| 19 | Accounts Payable | \$ 810 | |
| 20 | Due to Fund | 2,150 | |
| 21 | Due to Government | <u>800</u> | |
| 22 | Total Payables | | \$3,760 |
| 23 | Employees' Leave Liability | | 1,050 |
| 24 | Deferred Income | | 985 |
| 25 | Other Liabilities | | <u>495</u> |
| 26 | Total Liabilities | | \$ 6,290 |

Fund Balance and Reserves

| | | | |
|----|--|------------|-----------------|
| 27 | Fund Balance | \$3,998 | |
| 28 | Reserve for Fixed Assets | <u>540</u> | |
| 29 | Total Fund Balance and Reserves | | \$ 4,538 |
| 30 | Total Liabilities, Fund Balance, and Reserves | | <u>\$10,828</u> |

10 Enter cash, sinking fund account (1050).

11 Enter the sum of lines 1, 5, 8, 9, and 10.

12 Enter equipment (account 1510).

13 Enter vehicles (account 1520).

14 Enter the sum of lines 12 and 13.

15 Enter accumulated depreciation (account 1590).

16 Enter the result of subtracting line 15 from line 14.

17 Enter the ticket value (account 1610).

18 Enter the sum of lines 11, 16, and 17.

19 Enter the sum of accounts payable (account 2010), loans payable (account 2015), salaries payable (account 2020), employee benefits payable (account 2025), taxes payable (account 2040), and accrued interest payable (account 2045).

20 Enter due to (name of) fund (2050 series). Make a separate entry for amounts due to each separate fund.

21 Enter due to (name of) government (2070 series). Make a separate entry for amounts due to each government.

22 Enter the sum of lines 19 to 21.

23 Enter the sum of annual leave liability (account 2030) and sick leave liability (account 2035).

24 Enter deferred income (account 2610).

25 Enter other liabilities (account 2090).

26 Enter the sum of lines 22 to 25.

27 Enter the sum of fund balance (account 2710) plus the net profit (line 26) from the income statement for the year to date.

28 Enter the reserve for fixed assets (account 2810).

29 Enter the sum of lines 27 and 28.

30 Enter the sum of lines 26 and 29.

Using the Balance Sheet

Two line items on the balance sheet, the "Employees' Leave Liability" (line 23) and "Reserve for Fixed Assets" (line 28), are adjusted only annually. In the case of the former line, the actual liability for earned, but unused, employee annual and sick leave is computed at the end of the year and entered into the books of account. The year-end liability then serves as an estimate in monthly reports during the next year. The "Reserved for Fixed Assets" is set equal to "Sinking Fund Cash" (line 10) also at the end of the year.

Relationships between various items on the balance sheet and general operating results may indicate that corrective action is required in some areas. Two relationships which are important are discussed below.

The ratio of current assets to current liabilities (the current ratio) and the difference between current assets and current liabilities (net working capital) serve as an indication of the school food service fund's ability to finance current operations. If these figures steadily decrease over time, the school's ability to pay its bills may be impeded.

The relationship of cash to other current assets should remain fairly constant over time. If this ratio decreases, it may indicate

that uncollectable receivables or unusable inventories are being accumulated, and this situation could affect the school's ability to pay its bills.

The Consolidated Balance Sheet

The consolidated balance sheet of a school district will be used to prepare reports to other governmental agencies and will be used to compare the financial conditions of individual school food service funds within the district. The consolidated balance sheet is simply the sum of the balance sheets of the individual funds.

THE STATEMENT OF CHANGES IN FINANCIAL POSITION

The statement of changes in financial position is a financial report that summarizes the effect of financial transactions on the cash account during an accounting period. It is essentially a report that translates the income statement from an accrual basis of accounting to a cash basis. The report adds depreciation (a non-cash deduction from revenue) to net profit and then adjusts this amount for changes in assets and liabilities. Increases in liabilities and decreases in assets are sources of cash, and increases in assets and decreases in liabilities are uses of cash. Thus, the report allows the school food service manager to see the effect overall operations have on cash balances.

Preparing the Statement of Changes in Financial Position

The statement of changes in financial position (see Figure IV.6) is prepared at the end of each month for the same month just ended and the year to date as the income statement. It can be prepared from either the income statement and balance sheet or directly from the general ledger. The former method is simpler and is illustrated in Figure IV.6.

When preparing a statement of changes in financial position for a given accounting period, an income statement for the same accounting period is required, along with balance sheets for the beginning and the end of the accounting period. The line item amounts are calculated as follows:

| <u>Line Number</u> | <u>Method of Calculation</u> |
|--------------------|---|
| 1 | Enter the "Net Profit" (line 26) from the income statement. |
| 2 | Enter "Depreciation Expense" (line 23) from the income statement. |

FIGURE IV.6

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR JANUARY 1972

- 3 Enter the difference in "Total Receivables" (line 5) as shown on the balance sheets for the beginning and end of the accounting period. If receivables have increased, a use of cash is recorded.
- 4 Enter the difference in "Inventory, Food" (line 6) as shown on the balance sheets for the beginning and end of the accounting period. If food inventory has increased, a use of cash is recorded.
- 5 Enter the difference in "Inventory, Supplies" (line 7) as shown on the balance sheets for the beginning and end of the accounting period. If supplies inventory has increased, a use of cash is recorded.
- 6 Enter the difference in "Prepaid Expenses" (line 9) as shown on the balance sheets for the beginning and end of the accounting period. If prepaid expenses have increased, a use of cash is recorded.
- 7 Enter the difference in "Fixed Assets" (line 14) from the balance sheets for the beginning and end of the accounting period, minus the amount shown as "Depreciation" (line 15). If fixed assets have increased, record a use of cash.
- 8 Enter the difference in "Ticket Value Account" (line 17) as shown on the balance sheets for the beginning and end of the accounting period. If the ticket value account has increased, a use of cash is recorded.
- 9 Enter the difference in "Total Payables" (line 22) as shown on the balance sheets for the beginning and end of the accounting period. If payables have increased, a source of cash is recorded.

10 Enter the difference in "Employees' Leave Liability" (line 23) as shown on the balance sheets for the beginning and the end of the accounting period. If the liability has increased, a source of cash is recorded. This amount will be zero on all reports except those prepared at the end of the year.

11 Enter the difference in "Deferred Income" (line 24) as shown on the balance sheets for the beginning and end of the accounting period. If deferred income has increased, a source of cash is recorded.

12 Enter the difference in "Other Liabilities" (line 25) as shown on the balance sheets for the beginning and end of the accounting period. If other liabilities have increased, a source of cash is recorded.

13 Enter the sum of all previous lines in the appropriate columns.

14 Enter the result of subtracting "Total Uses" from "Total Sources." If the amount is negative, enclose it in parentheses.

15 Enter the difference in "Sinking Fund Cash" (line 10) as shown on the balance sheets for the beginning and end of the accounting period. If sinking fund cash has increased, a use of cash is recorded.

16 Enter the result of subtracting line 15 (if it is a use of cash) from line 14. If the result is negative, enclosed in parentheses.

The consolidated statement of changes in financial position is prepared in the same manner as the statement for individual school food service funds using consolidated income statements and balance sheets.

OTHER OPERATING STATISTICS

Two other operating statistics, in addition to those mentioned above, are important in evaluating the operating results of a school food service fund: inventory turnover and meals per man-hour. The calculation and use of these statistics are described below.

Inventory Turnover

Inventory turnover is simply a measurement of the number of times that inventory is used up during an accounting period. To minimize the fluctuations which occur during a single month, averages are used, and the formula for calculating inventory turnover is:

$$\text{turnover} = \text{average monthly sales} \div \text{average monthly inventory}$$

For example, assume that sales and inventory levels for the last three operating periods (months) are as follows:

| | <u>Sales</u> | <u>Ending Inventory, Supplies</u> |
|-------|--------------|-----------------------------------|
| Jan. | \$1,500 | \$ 800 |
| Feb. | \$1,600 | \$ 600 |
| March | \$1,520 | \$1,000 |

Average period sales are calculated as follows:

$$(\$1,500 + \$1,600 + \$1,520) \div 3 \text{ months} = \$1,540/\text{month}$$

Average period inventory is computed accordingly:

$$(\$800 + \$600 + \$1,000) \div 3 \text{ months} = \$800/\text{month}$$

Applying these results to the turnover formula, the turnover (or turnover ratio) is:

$$\text{inventory turnover} = \$1,550 \quad \$800 = 1.9 \text{ turnover per month}$$

This means that, on the average, a school food service operation is using (or replenishing) its supplies inventory approximately twice a month. Separate average inventory figures should be calculated for food inventory and supplies inventory.

Inventory turnover for each of the various school locations must be compared to one another, and to the inventory turnover for the

entire fund. Wide differences in the averages reported by individual schools within a district should be investigated by district management. A high turnover may indicate that large lot purchases of frequently used items are not being made, while a low turnover may result in excessive spoilage of perishable items or an unnecessary investment in inventory.

Meals Per Man-Hour

The meals per man-hour figure is calculated by dividing the total number of a particular type of meal served by the total labor man-hours chargeable to it. The resulting figure is used along with labor costs expressed as a percentage of revenue for the type of meal. Together they can be used to indicate locations where labor rates may be higher or lower than desirable or where the labor effort per meal is too high or low. The meals per man-hour figure is useful because it measures the relationship between meals and direct labor regardless of the price of either the meals or labor.

School food service fund operating reports are intended to help district management monitor the achievement of school food service goals. Although the reports cannot provide complete details of operations, the comparison of reports over time and between schools will reveal areas where further investigation is required.

UNALLOWABLE COSTS

Under the regulations of the National School Lunch Program, claims for reimbursement may not include the following costs:

- cost of land;
- acquisition cost of buildings;
- construction cost of buildings;
- alteration cost of buildings;
- value of USDA-donated commodities used; and
- the rental value of buildings or land.

While the operating statement for the school food service fund may include some of the above items for evaluating the fund's effectiveness, they must be excluded for reimbursement reporting purposes.

All other expenses, both direct and allocated costs, which meet the following criteria are legitimate school food service costs:

- . The expenses are valid (i.e., they represent the cost of goods and services provided). In particular, allocated costs should be determined using the recommended allocation procedures outlined in Chapter III.
- . The expenses are recorded properly in the fund's books of account (i.e., they are properly charged to the food service fund). Expenses paid by other school funds must be offset by revenues to the school food service fund.

The USDA Food and Nutrition Service will determine which of the legitimate costs may be included for reimbursement purposes.

APPENDIX A

CASH RECEIPTS AND PARTICIPATION REPORT (FIGURE A.1)

SPECIFICATION FOR COMPLETION OF REPORT

A.1



FIGURE A.1
CASH RECEIPTS AND PARTICIPATION REPORT

| No. of 1/2 Pints - Special Milk Program | | | | |
|---|------------------|------------|--------------|-----|
| Sold | Not-Reimbursable | | Reimbursable | |
| | To Adults | With Meals | SAMP | SMP |
| | | | | |

| Employee Meals | To Students | | | To Adults | | |
|-------------------|-------------|-------|--------|-----------|---|--------|
| | No. | @ | Value | No. | @ | Value |
| Breakfast | | | | | | |
| Lunch | 3 | \$.50 | \$1.50 | | | |
| A La Carte | | | | | | |
| Total | | | \$1.50 | | | |
| Total | | | | | | \$1.50 |

| Cash Receipts Reconciliation | |
|------------------------------|----------|
| | Amount |
| Cash Receipts | |
| Pupils: Type A Lunch | \$255.00 |
| Breakfast | |
| A La Carte | |
| Special Milk | |
| Adults: Lunch | |
| Breakfast | |
| A La Carte | |
| Special Milk | |
| Total | \$255.00 |
| Cash Count | \$264.95 |
| Less: Change Bank | \$ 10.00 |
| Cash Received | \$254.95 |
| Over (Short) | \$.05 |



SPECIFICATION FOR

FIGURE A.1 - CASH RECEIPTS AND PARTICIPATION REPORT

PURPOSE

The report records a cashier's daily total of sales dollars and meal counts for each category of sales and reconciles the cash turned in by the cashier and the cash register readings with the reported sales. In addition, this form is used for meal count information on ticket sales. All meal values also are calculated; only cash received for a la carte sales and miscellaneous cash are included for reconciliation purposes, however.

TIMING

It is prepared daily.

SOURCE OF DATA

Information on the report is derived from the cash register readings and cash count.

PREPARATION AND APPROVAL

The report is prepared by cashier and checked by the school lunch manager.

DISTRIBUTION

An original and one copy are prepared. The original is forwarded to the district office with a bank deposit slip, and the copy is kept at the school.

GENERAL

1. The school lunch manager, working in conjunction with the district accounting department, must establish an accurate, efficient method by which the cashier(s) at each school can compile the number of meals sold and the dollar sales in each required reporting category. The method selected will vary according to the capabilities of the cash register(s), adding machine(s), or other equipment available at the school and according to the physical set-up and the district's policies on identifying those students entitled to free or reduced price meals.

REPORT FIELD DEFINITIONS

Fields

heading information

Definition or Entry Instruction

Enter the name of the school, location, number, the dollar amount of the change bank and the date.

Sales to Pupils - Type A Lunches

total served

Enter the total type A lunches served.

tickets collected

Enter the total type A lunches for which tickets were exchanged, the full sales value per meal, and the total value. Also note the number of free and reduced price meals.

total at full price

Enter the number of pupil type A lunches served, including full price lunches, reduced price lunches, and free lunches. Enter the total number of lunches served multiplied by the full price per lunch in the dollars space.

less: price reduction

There are two columns provided for reduced price lunches. If more than one price is offered, use the second column. Enter the amount of the price reduction on the unit price line. Do not enter the reduced price itself. Then enter the number of reduced price lunches sold. Multiply the amount of the reduction by the number of lunches sold to pupils at the reduced price.

less: free

Enter the number of free type A lunches served. Multiply this number by the full price of the type A lunch.

equals: cash received

Total the full price, reduction, and free sales. Enter only the dollar amount.

Sales to Pupils - Breakfasts

The same columns which are provided for type A lunches are also provided for breakfast, except that only one column is provided for price reductions. The instructions for completing

these columns are the same as for the type A lunch columns. Again, the amount of the price reduction and not the reduced price itself must be entered.

Sales to Pupils - A La Carte

Enter the total amount of cash received from a la carte sales to pupils. If a la carte per meal costs are required, also enter the number of individual a la carte transactions.

Sales to Pupils - Special Milk Program

The columns are analogous to those for type A lunch, except free milk under the Special Assistance Milk Program is not included.

Sales to Adults

lunches

Enter the number and total dollar amount for type A lunches served to all adults for tickets and cash.

breakfasts

Enter the number and total dollar amount for breakfasts served to all adults for tickets and cash.

a la carte

Enter the total amount of cash received from a la carte sales to adults. If a la carte per meal costs are required, also enter the number of individual a la carte transactions.

cash receipts reconciliation

Enter the totals for the following columns:

- . cash received - pupil lunches;
- . cash received - pupil breakfasts;
- . cash received - a la carte;
- . cash received - pupil Special Milk Program;
- . lunches (adults);
- . breakfasts (adults);
- . a la carte (adults); and
- . Special Milk (adults).

Compare the total to the cash count minus the change bank. Any excess or shortage affects only the next day's change bank and not the day's deposit.

Number of Half Pints - Special
Milk Program

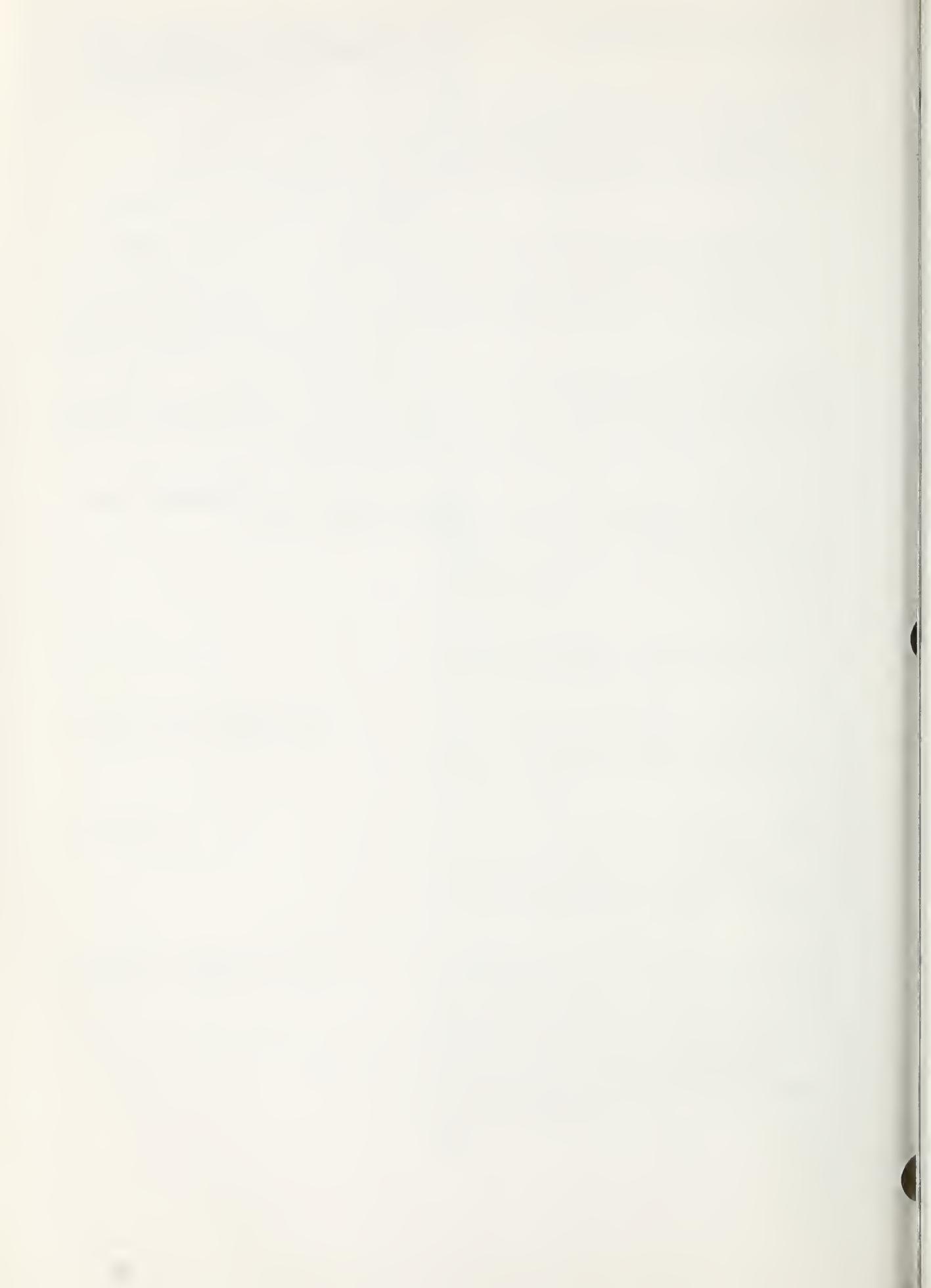
| | |
|---|--|
| purchased | Enter the total number of half pints purchased daily in all programs. This information is to be taken directly from the milk vendor's invoice. |
| to adults | Enter the number of half pints of milk served to adults (determine either by taking an actual count or using three percent of the total milk purchases). |
| with meals | Enter the total number of half pints served to children in type A lunches under the National School Lunch Program and in breakfasts under the School Breakfast Program. |
| free to needy SAMP | Enter the number of half pints of milk served to children (in other than type A lunches) for which no charge was made. (This only applies if the school is approved for such assistance.) |
| SMP | Enter the number of half pints of milk not included in the type A lunch sold to children. |
| number of employees meals | Enter the actual number of meals eaten by the employees, including student workers, and the value of these meals. |
| cash count | At the end of the working day, the cashier is to count the cash and enter the amount by denomination. Add the amounts and enter the total on the "Total Cash" line. |
| cashier's signature (and) checked by signature | After the above entries are completed, the cashier is to sign the form in the proper space and turn this form, the cash receipts, and the change bank into the school manager who is to verify the cash receipts and change bank amounts and sign in the proper space. |

cash drawer reconciliation

The school manager (or someone other than the cashier who the manager designates) is to read the register and enter the following:

- . closing register reading;
- . opening register reading;
- . reading difference (subtract the opening reading from the closing reading);
- . cash receipts (transcribe the amount from the "Cash Receipts" line in the "Cash Turned In" section;
- . excess (if the cash receipts amount is larger than the reading difference, enter the difference between the two in this space); and
- . shortage (if the register reading is larger than the cash receipts amount, enter the difference between the two in this space).

This section is to be used for cash drawer control only.



APPENDIX B

REIMBURSEMENT VOUCHER WORKSHEET (FIGURE B.1)

SPECIFICATIONS FOR COMPLETION OF WORKSHEET

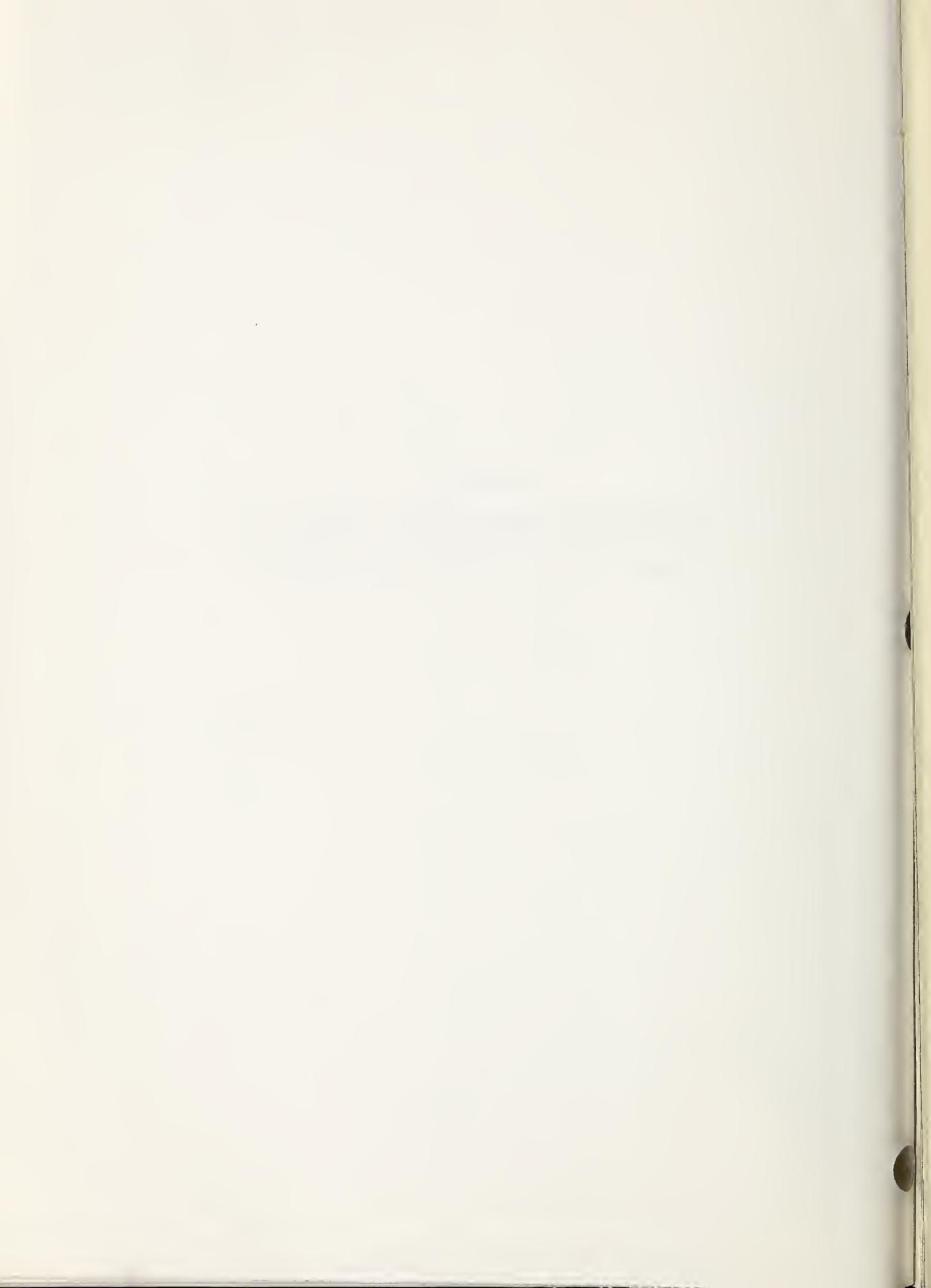
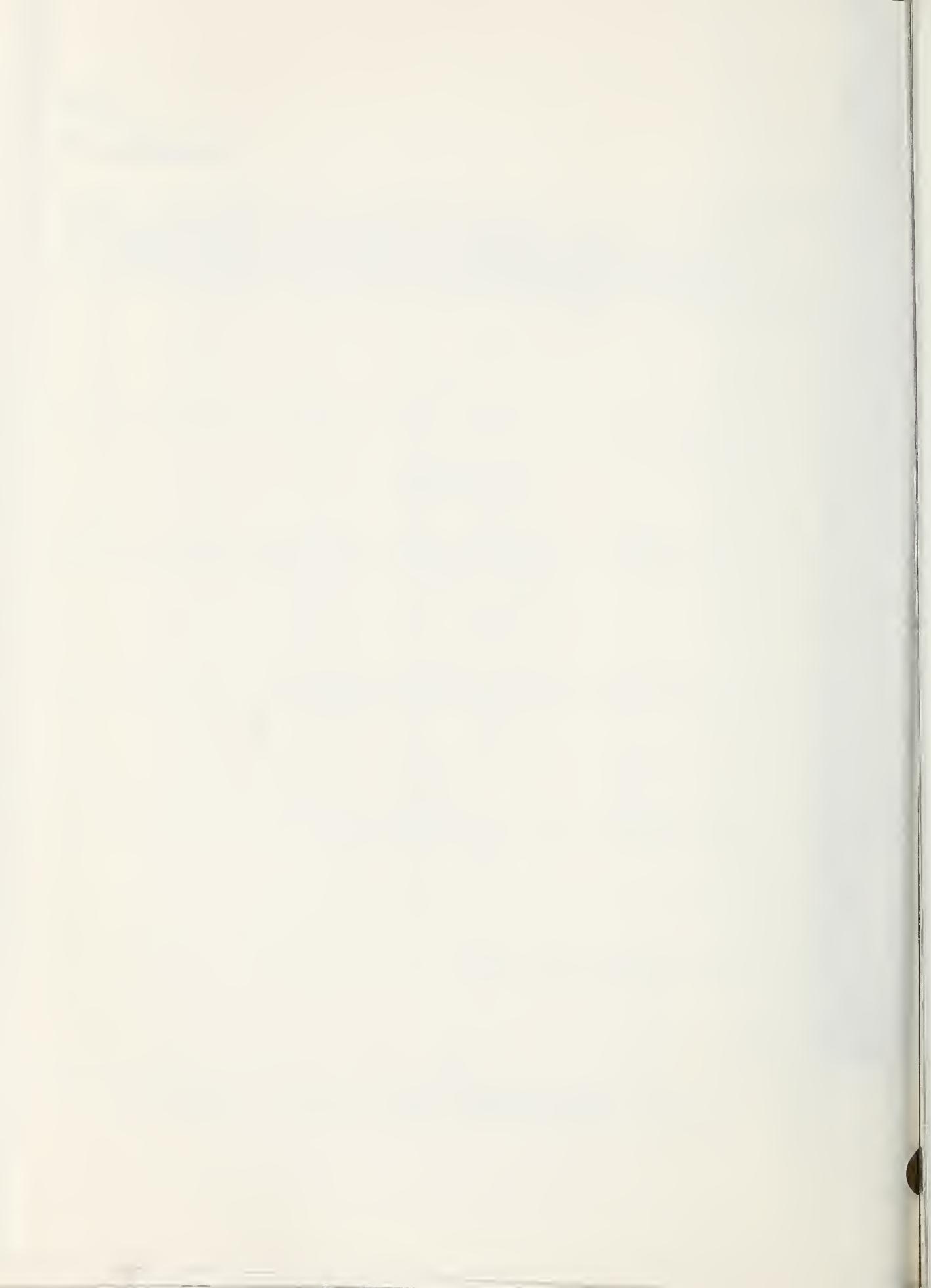


FIGURE B.1

REIMBURSEMENT VOUCHER WORKSHEET

Date _____

| Month | Year | Day | Number of Meals Served to Children | | | | | | | Number of Meals Served to Adults | | | Number of One-Half Pints - Special Milk Program | | | | |
|-----------|------|--------|------------------------------------|---------|------|------------|---------|------|--------------------------|----------------------------------|------------|--------------------------|---|------------------|------------|--------------|-----|
| | | | Type A Lunches | | | Breakfasts | | | A La Carte (Optional) | Lunches | Breakfasts | A La Carte (Optional) | Purchased | Not Reimbursable | | Reimbursable | |
| | | | Total | Reduced | Free | Total | Reduced | Free | | | | | | To Adults | With Meals | SAMP | SMP |
| September | 1972 | 1 | 350 | 10 | 20 | 35 | 25 | 60 | | 80 | | | | | | | |
| | | 2 | | | | | | | | | | | | | | | |
| | | 3 | | | | | | | | | | | | | | | |
| | | 4 | | | | | | | | | | | | | | | |
| | | 5 | | | | | | | | | | | | | | | |
| | | 6 | | | | | | | | | | | | | | | |
| | | 7 | | | | | | | | | | | | | | | |
| | | 8 | | | | | | | | | | | | | | | |
| | | 9 | | | | | | | | | | | | | | | |
| | | 10 | | | | | | | | | | | | | | | |
| | | 11 | | | | | | | | | | | | | | | |
| | | 12 | | | | | | | | | | | | | | | |
| | | 13 | | | | | | | | | | | | | | | |
| | | 14 | | | | | | | | | | | | | | | |
| | | 15 | | | | | | | | | | | | | | | |
| | | 16 | | | | | | | | | | | | | | | |
| | | 17 | | | | | | | | | | | | | | | |
| | | 18 | | | | | | | | | | | | | | | |
| | | 19 | | | | | | | | | | | | | | | |
| | | 20 | | | | | | | | | | | | | | | |
| | | 21 | | | | | | | | | | | | | | | |
| | | 22 | | | | | | | | | | | | | | | |
| | | 23 | | | | | | | | | | | | | | | |
| | | 24 | | | | | | | | | | | | | | | |
| | | 25 | | | | | | | | | | | | | | | |
| | | 26 | | | | | | | | | | | | | | | |
| | | 27 | | | | | | | | | | | | | | | |
| | | 28 | | | | | | | | | | | | | | | |
| | | 29 | | | | | | | | | | | | | | | |
| | | 30 | | | | | | | | | | | | | | | |
| | | Totals | 3,200 | 400 | 400 | 900 | 700 | 250 | | 250 | | | | | | | |



SPECIFICATION FOR

FIGURE B.1 - REIMBURSEMENT VOUCHER WORKSHEET NATIONAL SCHOOL LUNCH,
SCHOOL BREAKFAST, AND SPECIAL MILK PROGRAMS

PURPOSE

The report records the number of meals served to children and adults for a month. This form is used to serve as a summary document in providing information for reimbursement vouchers sent to state agencies. It is also used as a worksheet for determining revenue earned where tickets are sold to children and adults.

TIMING

Entries are made daily by transferring information from the cash receipts and participation report (see Figure A.1).

SOURCE OF DATA

Information on the worksheet is derived from the cash receipts and participation report (for cash sales and ticket sales).

PREPARATION AND APPROVAL

The worksheet is prepared by an accounting clerk and it is checked by the accountant.

DISTRIBUTION

It is retained in the district accounting office.

REPORT FIELD DEFINITIONS

Fields

Definition or Entry Instruction

month and year

Enter the month and year for which the information is reported.

Number of Meals Served to
Children

date

Each line (numbered from 1 to 30) entry represents one day's activity

for this worksheet. The first day's participation information is to be entered on line 1, the second in 2, etc.

lunches

Enter the total of all type A lunches served to pupils for the day from the corresponding field on the cash report or ticket receipts and participation report (all entries are references from these sources).

reduced

Enter the number of reduced price type A lunches. Two columns are provided for entry when there is more than one price category of reduced price lunch served. Additional columns will need to be designed for more than two categories of reduced price meals.

free

Enter the number of free type A lunches served to pupils.

Breakfasts

total

Enter the total of all breakfasts served to pupils.

reduced

Enter the number of reduced price breakfasts for each category of reduced price breakfast.

free

Record the number of free breakfasts.

a la carte (optional)

Enter the number of a la carte transactions for the day (sales to pupils only).

Number of Meals Served to Adults

lunches

Enter the number of type A lunches served to adults. Free meals are not to be included (i.e., those meals served to employees or to student workers are not to be included).

breakfasts

Enter the total of all breakfasts served to adults.

a la carte (optional)

Enter the number of a la carte transactions for the day (sales only).

Number of Half Pints - Special Milk Program (all information to be taken from the daily cash receipts and participation report).

purchased

Enter the total number of half pints purchased daily.

to adults

Enter the number of half pints served to adults (by taking an actual count or using three percent of the total purchases).

to children with meals

Enter the total number of half pints served to children as part of breakfasts and type A lunches.

SAMP

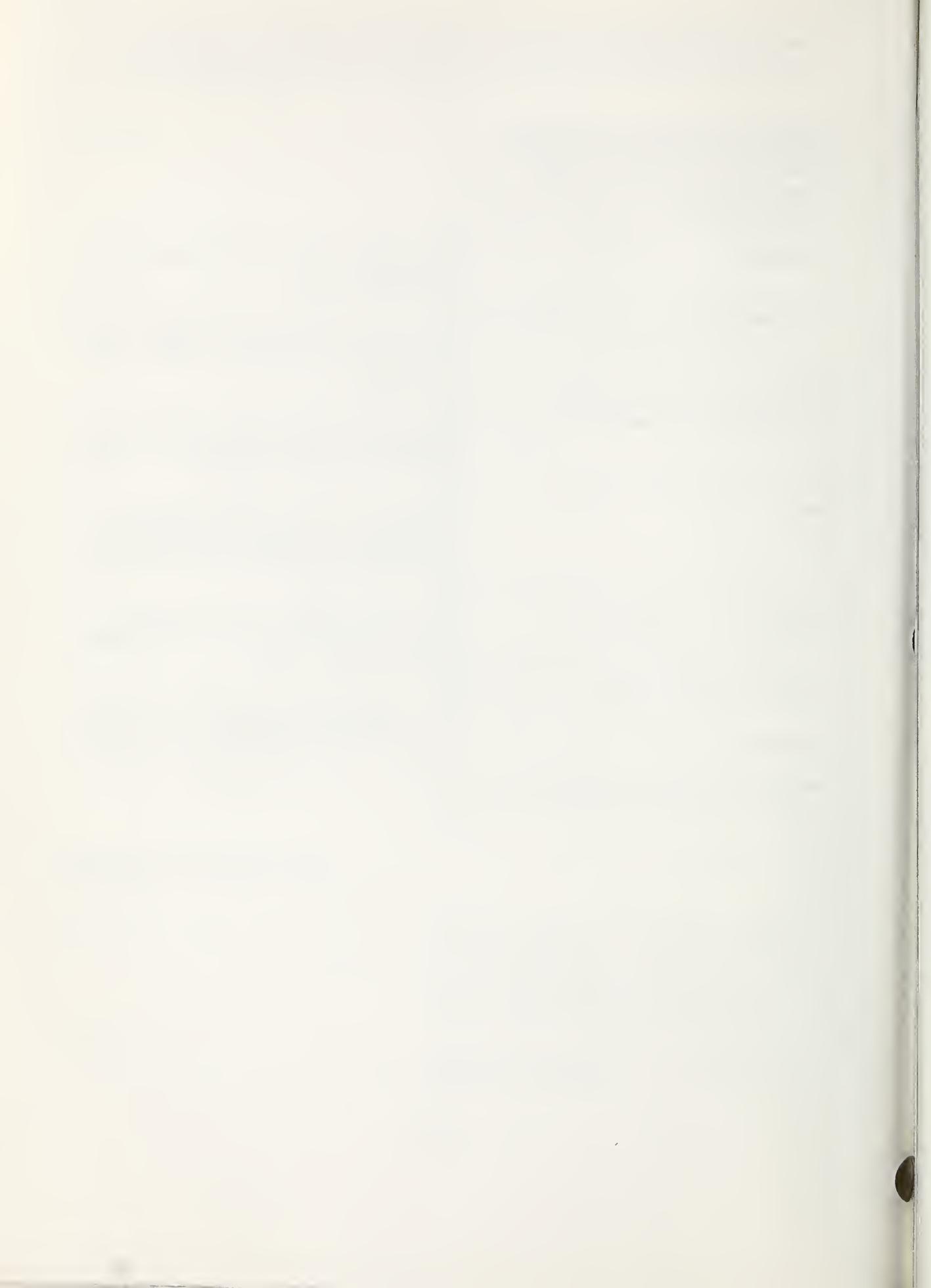
Enter the number of half pints of milk served to children (in other than type A lunches) for which no charge was made.

remaining to children

Enter the number of half pints of milk sold to children not included in the type A lunch.

(line) totals

Each column defined above is totaled at the end of the month for entry on the reimbursement report to the state.



APPENDIX C
TICKET RECEIPTS REPORT (FIGURE C.1)
SPECIFICATION FOR COMPLETION OF REPORT

FIGURE C.1
TICKET RECEIPTS REPORT

Date _____

| | | Sales To Pupils | | | Sales To Adults | | | | | | |
|--------------------------------------|--|-----------------|------|----------|-----------------|------------|----|-------|------|--|--|
| Next Ticket No. To Be Issued | | No. 01072 | | | No. | | | | | | |
| | | Type A Lunches | | | Type A Lunches | | | | | | |
| Less: Beginning No. | | No. 00272 | | | | | | | | | |
| Equals: Total Value Issued | | No. 800 | @.50 | | \$400.00 | No. | @. | | \$. | | |
| Less: Price Reduction | | No. | @. | \$. | | No. | @. | \$. | | | |
| Price Reduction | | No. | @. | \$. | | No. | @. | \$. | | | |
| Free | | No. 200 | @.50 | \$100.00 | \$100.00 | No. | @. | \$. | \$. | | |
| Cash Received, Lunches | | | | \$300.00 | | \$. | | | | | |
| Next Ticket No. To Be Issued | | No. 01183 | | | No. | | | | | | |
| | | Breakfasts | | | | Breakfasts | | | | | |
| Less: Beginning No. | | No. 00783 | | | | | | | | | |
| Equals: Total Value Issued | | No. 400 | @.25 | | \$100.00 | No. | @. | | \$. | | |
| Less: Price Reduction | | No. | @. | \$. | | No. | @. | \$. | | | |
| Price Reduction | | No. | @. | \$. | | No. | @. | \$. | | | |
| Free | | No. 100 | @.25 | \$ 25.00 | \$ 25.00 | No. | @. | \$. | \$. | | |
| Cash Received, Breakfasts | | | | \$ 75.00 | | \$. | | | | | |
| Next Ticket No. To Be Issued | | No. | | | No. | | | | | | |
| | | Milk | | | | | | | | | |
| Less: Beginning No. | | No. | | | | | | | | | |
| Equals: Total Value Issued | | No. | @. | | \$. | No. | @. | | \$. | | |
| Less: Price Reduction | | No. | @. | \$. | | No. | @. | \$. | | | |
| Price Reduction | | No. | @. | \$. | | No. | @. | \$. | | | |
| Free | | No. | @. | \$. | \$. | No. | @. | \$. | \$. | | |
| Cash Received, Milk | | | | \$. | | \$. | | | | | |
| Total Cash Received: Pupils & Adults | | | | \$. | | \$. | | | | | |
| Combined Total (Pupils & Adults) | | | | | | \$375.00 | | | | | |
| Cash Turned In: | | | | | | | | | | | |
| Cash Counted | | | | | | \$385.00 | | | | | |
| Less: Change Bank | | | | | | \$ 10.00 | | | | | |
| Equals: Cash Receipts | | | | | | \$375.00 | | | | | |
| Less: Combined Total | | | | | | \$375.00 | | | | | |
| Equals: Overage or (Shortage) | | | | | | \$ 0.00 | | | | | |

Ticket Clerk's Signature

Remarks

Manager's Signature

SPECIFICATION FOR

FIGURE C.1 - TICKET RECEIPTS REPORT

PURPOSE

The report is used to record a cashier's and clerk's daily total of cash received from the sale of tickets.

TIMING

It is prepared daily by the cashier (or clerk or secretary in the school office).

SOURCE OF DATA

Information on this report is derived from the cash count and ticket numbers.

DISTRIBUTION

An original and one copy are prepared. The original is forwarded to the district office with bank deposit slip, and the copy is kept at the school location.

GENERAL

1. Records of who purchased tickets do not need to be kept.
2. Tickets should be sold in the lunch line each day or from a central point. Any denomination of ticket may be used with this form (20-day tickets, five-day tickets, or one-day tickets).
3. The names of persons to whom tickets are sold should appear on the tickets. Therefore, if a ticket is lost, no one other than the purchaser can use the ticket or erase the name without it being noticed. Tickets should be numbered consecutively and should be differently colored for each meal program (breakfast, milk, lunch). Regular roll tickets will work best for daily sales, where one ticket which can be punched only once could not be used for multiple meal purchases.
4. If a pupil or adult needs only a few additional meals to finish out the school year where multiple meal tickets are sold, daily tickets may be bought so that the school may avoid refunds.

REPORT FIELD DEFINITIONS

| <u>Fields</u> | <u>Definition or Entry Instruction</u> |
|----------------------------|--|
| date | Enter the day on which the tickets are sold. |
| sales to pupils | Six large blocks are provided for entering information concerning ticket sales (three blocks for pupil ticket sales and three for adults.) Blocks are provided for recording type A lunch, breakfast, and milk ticket sales for both pupils and adults. Information for each block is as follows. |
| sold to number | Enter the number of the ticket which follows the number of the last ticket sold. This information is used to verify and control the number of tickets disbursed. |
| less: beginning | Enter the number of the first ticket used for a day's ticket sales. |
| equals: total value issued | Enter the total number of tickets sold. This amount should be equal to the difference between the beginning ticket number and the number of the last ticket sold. Enter the unit price per meal (this should be for full price, (e.g., 50¢ -- the full price of a type A lunch). Finally, multiply the total number of tickets sold by the full unit price and enter the result in the dollar block. |
| less: price reduction | Enter the number of tickets sold at a reduced price. Enter the amount of price reduction from the full unit price in the block, and finally the total amount of price reduction in the dollar block (multiply the number of reduced price lunches by the amount of price reduction to arrive at the total amount of price reduction). |
| free | Enter the number of free lunches, breakfasts, or milk tickets "sold" |

(issued). Multiply these numbers by the full value of each type of meal and enter the results in the dollar blocks.

cash received

Enter the difference between total tickets sold at full price and free and reduced tickets sold. Line 7 = line 3 minus lines 4, 5, and 6.

total cash received, pupils
and adults

Total all cash received for each program for pupils and enter the total in the pupil program column. Perform the same operation for the adult column.

combined totals, pupils
and adults

Add the amount of cash received from pupils to the amount of cash received from adults and enter the result on this line.

Cash Turned In

cash counted

All cash is counted at the end of the working day. Enter the total amount received from ticket receipts and from cash sales on this line.

less: change bank

This is the amount of change which was available for selling tickets and making change in the service line for a la carte sales at the beginning of the day.

equals: cash receipts

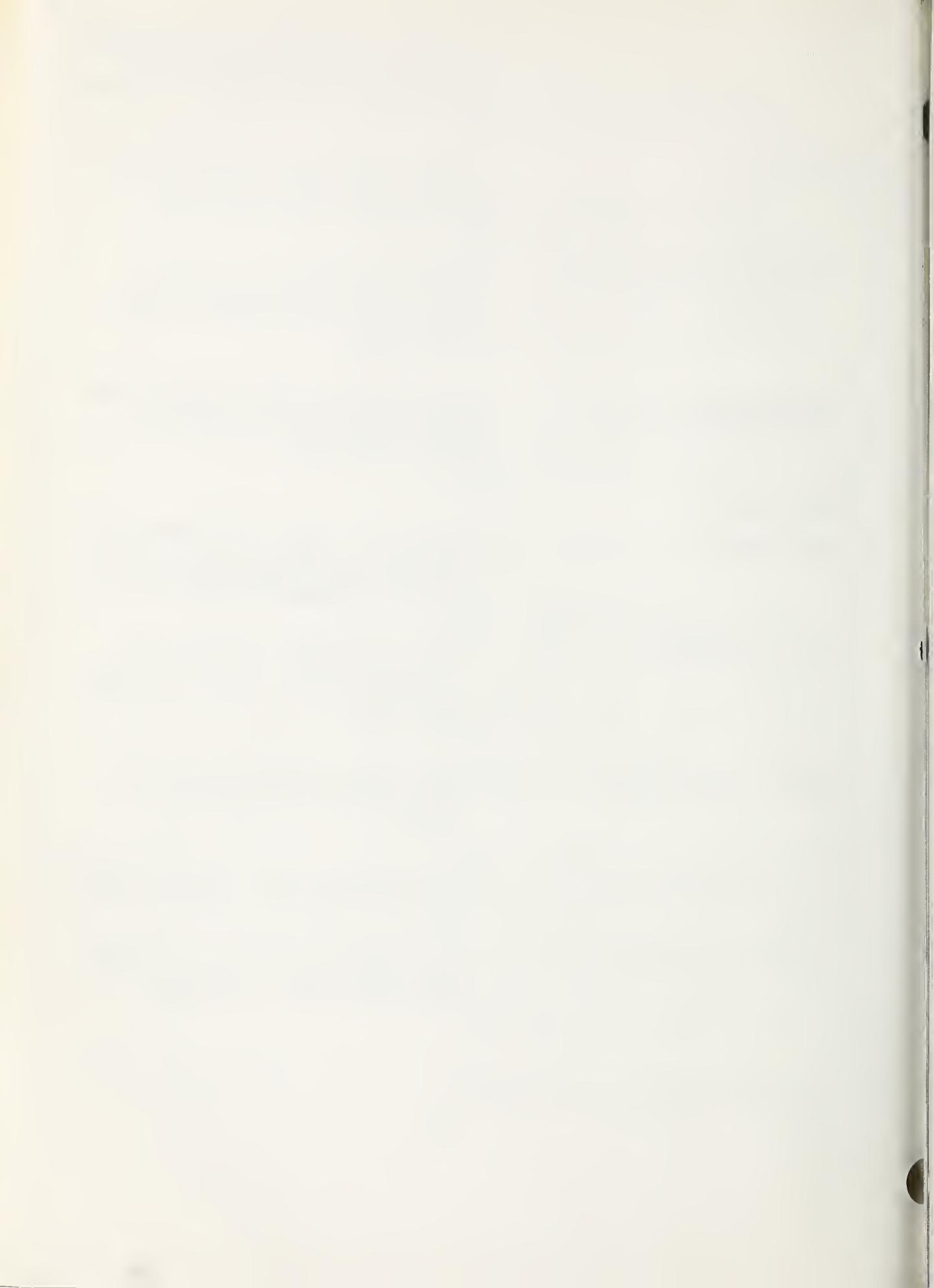
This is the difference between the change bank and cash counted. It should match the amount entered in item 13.

less: combined total

Enter the amount on line 9 as indicated by arrow on the form. Subtract this amount from the cash receipts counted.

excess or (shortage)

The difference between cash counted and tickets sold. Parentheses around the entry indicate a shortage.



APPENDIX E
JOURNAL VOUCHER (FIGURE E.1)
SPECIFICATION FOR COMPLETION OF VOUCHER

FIGURE E.1
JOURNAL VOUCHER

JV No. 0031

Date September 1, 1972

| DR | CR | ACCOUNT TITLE | ACCOUNT | DEBIT | CREDIT |
|----|----|------------------|---------|--------|--------|
| X | | Regular Salaries | 4010D | \$3.00 | |
| | X | Sales to Pupils | 3010C | | \$3.00 |

Description:

To record employee meals.

Approved by _____ Date _____

Posted by _____ Date _____ Account _____

SPECIFICATION FOR

FIGURE E.1 - JOURNAL VOUCHER

PURPOSE

The journal voucher records infrequent types of transactions which would not be recorded in other journals (e.g., cash receipts journal, disbursements journal, etc.)

TIMING

The journal voucher is used as necessary when transaction source documents are received.

SOURCE OF DATA

Information for the journal voucher is derived from reimbursement claims, letters of authorization, and information (entries) from other journals and the general ledger.

DISTRIBUTION

It is sent to the school lunch director or his representative for approval and is returned and filed in the journal voucher loose-leaf.

FIELD DEFINITIONS

| <u>Fields</u> | <u>Definition or Entry Instruction</u> |
|---------------|---|
| JV# _____ | Journal vouchers are consecutively numbered. No two may have the same number. |
| date _____ | Enter the date the voucher is initiated. |
| DR | Place an "X" in this column for all accounts to be debited. |
| CR | Place an "X" in this column for all accounts to be credited. |
| account title | Enter the name of the general ledger account(s) to be debited or credited. |

| | |
|-------------|--|
| account | Enter the general ledger account number to be debited or credited. |
| debit | Enter the amount to be debited. Must appear with "X" in DR column. |
| credit | Enter the amount to be credited. |
| description | Enter a very brief description of the purpose of the journal voucher. |
| approved | Enter the signature of the person authorized to approve the transaction, usually the school food service director. |
| date | Enter the date of approval. |
| posted | Enter a check mark when posting information to general ledger accounts. |
| date | Enter the date when posted to the general ledger. |
| account | Enter the signature of the accountant who prepared the journal voucher. |

APPENDIX F

GENERAL LEDGER FORMAT (FIGURE F.1)

SPECIFICATION FOR COMPLETION OF GENERAL LEDGER

FIGURE F.1
GENERAL LEDGER FORMAT

Account No. 1010 Title CASH

Page 1

SPECIFICATION FOR

FIGURE F.1 - GENERAL LEDGER

PURPOSE

Transactions which appear in the various journals (books of entry) are posted to the general ledger. The general ledger consists of one page for each object account number listed in the chart of accounts (Chapter V).

TIMING

General ledger transactions are posted daily or monthly. The general journal entries should be posted to the general ledger as soon as they are recorded in the journal. Other journal and closing entries are posted at the end of each month.

SOURCE OF DATA

Source of information for the general ledger is derived from the cash receipts journal, purchase journal, disbursement journal, payroll journal, and general journal.

PREPARATION

The general ledger is prepared by a clerk and the accountant. It is checked by the accountant.

REPORT FIELD DEFINITIONS

| <u>Fields</u> | <u>Definition or Entry Instruction</u> |
|----------------|---|
| account number | Enter the object account number listed in the chart of accounts. |
| title | Enter the account number. |
| page _____ | Enter the page number. General ledger pages are consecutively numbered. |
| date | Enter the date on which the general ledger entry is posted. |
| description | Enter a "label" or short narrative concerning the nature of the |

transaction. This description should match the description posted in the journal.

ref.

Enter the type of journal and the journal page number. "CRJ 5" would indicate that the transaction was entered to the cash receipts journal, page five.

transactions

Enter the dollar amount of the transaction. Debit entries are shown in the left hand column and credit entries in the right hand column.

balance

Enter the sum of the last line balance and the most recent transaction. Two columns are provided for balances: debit balances (i.e., the balance is positive) and credit balances (i.e., the balance is negative). An example is given below.

Assume a cash balance of \$500.00 as of January 1. Checks are written for \$100.00 and \$600.00, and a sales deposit is made for \$1,000.00. Transaction and balance columns would appear as shown:

| | Transactions | | Balance | |
|----|--------------|-------|---------|-------|
| | 1020D | 1020C | 1020D | 1020C |
| 1. | \$ 500 | | 500 | |
| 2. | | 100 | 400 | |
| 3. | | 600 | | 200 |
| 4. | 1,000 | | 800 | |

APPENDIX H

TIME AND ATTENDANCE RECORD (FIGURE H.1)

SPECIFICATION FOR COMPLETION OF RECORD

FIGURE H.1
TIME AND ATTENDANCE RECORD

| Name (Please Print) | | School Location | | | | | | | | | | | | | | |
|--------------------------|----------------------|----------------------------|---|---|---|----------------|---|----|---|-------------------|---|---|---|---------|----|--------|
| <i>Barbara James</i> | | Greenwood School, No. 0415 | | | | | | | | | | | | | | |
| | | Pay Period Ending | | | | | | | | | | | | | | |
| Program or Work Category | | S | S | M | T | W | T | F | S | S | M | T | W | T | F | Totals |
| Breakfast | | | | | | | | | | | 6 | 6 | 6 | 6 | 6 | 60 |
| Lunch | | 6 | 6 | 6 | 6 | 6 | 6 | 6 | | | 2 | 2 | 2 | 2 | 2 | 20 |
| A La Carte | | 2 | 2 | 2 | 2 | 2 | 2 | 2 | | | 5 | | | | | 5 |
| Special Functions | | | | | | | | | | | | | | | | 10 |
| Vacation | | | | | | | | | | | | | | | | |
| Holiday | | | | | | | | | | | | | | | | |
| Illness | | | | | | | | | | | | | | | | |
| Total Hours | | 8 | 8 | 8 | 8 | 8 | 8 | 13 | | | 8 | 8 | 8 | 8 | 13 | 80 |
| | | | | | | | | | | | | | | | | |
| Employee's Signature | <i>Barbara James</i> | Date <i>8/15/72</i> | | F | | Purchasing | | U | | Receiving/Storing | | | | | | |
| Manager's Signature | <i>Barbara James</i> | Date <i>8/16/72</i> | | N | | Delivery | | C | | Preparation | | T | | Serving | | |
| Received by Accountant | <i>Barbara Smith</i> | Date <i>8/16/72</i> | | I | | Administration | | O | | | | | | | | |

SPECIFICATION FOR

FIGURE H.1 - TIME AND ATTENDANCE RECORD

PURPOSE

The time and attendance record records the amount of hours each school food service employee worked. Every employee must complete a time and attendance record for payment and for labor distribution purposes. This record serves as the source document for accounting for labor costs by program and function.

TIMING

The food service employee prepares the record every payroll period to meet the school district payroll processing deadline. This may be other than a two-week period and require changes to the format of the record.

SOURCE OF DATA

Hours worked in each program should be entered daily by each employee. An employee may enter hours worked by function daily on a separate worksheet which is summarized for the two-week period on the time and attendance record, or the employee may estimate hours by function at the end of the two-week period and enter the information directly on to the time and attendance record.

DISTRIBUTION

An original and one copy are prepared. The original is forwarded to the school district office, and the copy is retained by the school location food service operations manager.

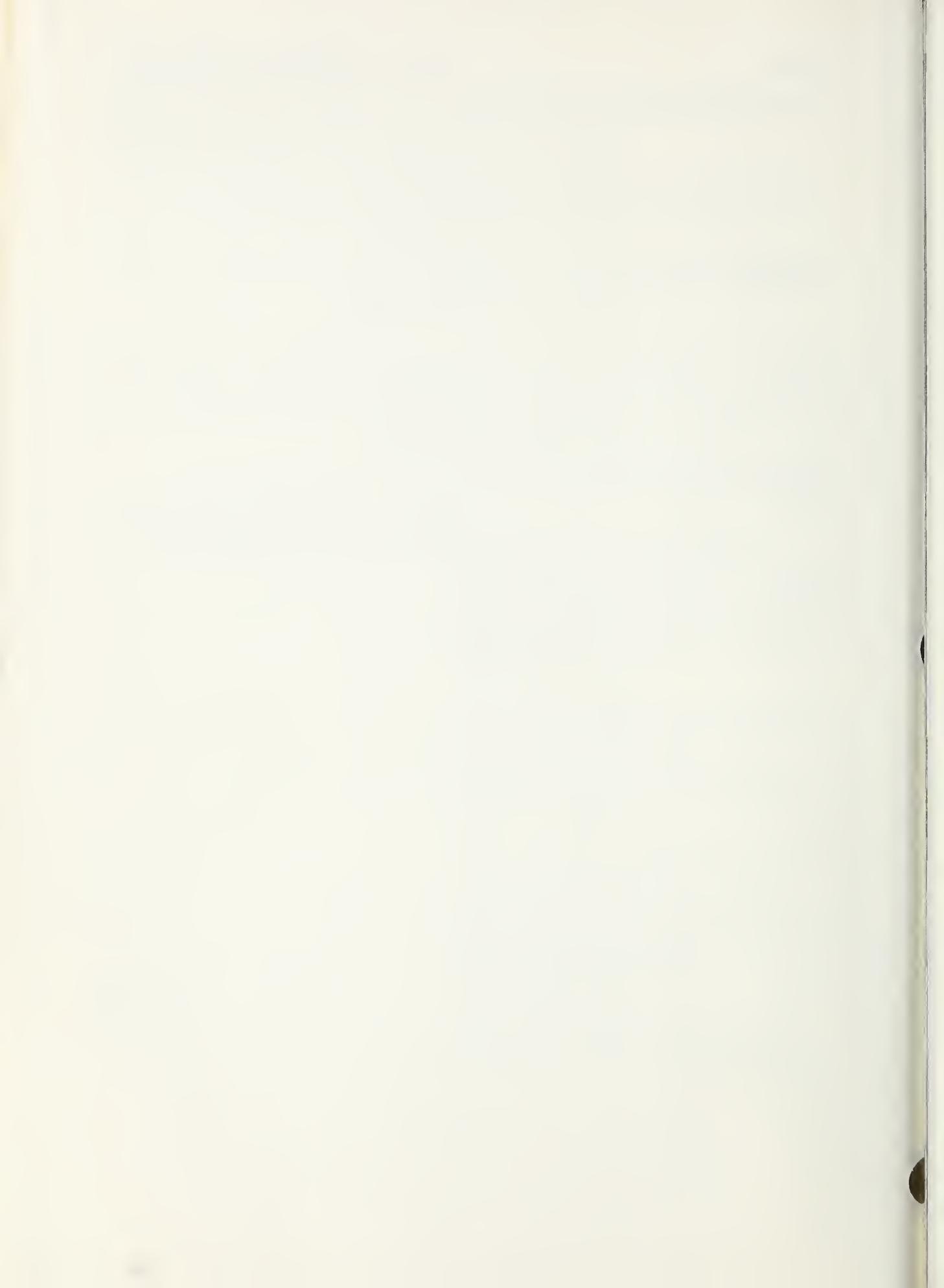
GENERAL

Figure H.1 contains sample information which could be entered by the personnel who use this form. The employee in this example worked a total of 90 hours for the two-week period: 80 regular hours and 10 overtime hours. Overtime hours were used in preparing food for a special school function, and regular hours were split between preparing and serving type A lunches and a la carte meals. The employee completed the form at the end of the pay period. It was approved and signed by his supervisor and subsequently by the accountant on the following day.

REPORT FIELD DEFINITIONS

| <u>Field</u> | <u>Definition or Entry Instruction</u> |
|--------------------------|---|
| name | Enters his name. |
| pay period ending | Enters the month, day, and year of the last day of the current pay period. |
| school location | Enters the name and location account number of the cafeteria or other location where he works. |
| program or work category | Enters the type of activity in which he participates each day. Categories are preprinted on the form (with space left to enter additional categories by the employee, if necessary) according to the program categories used. Enters the number of hours absent each day. |
| S,S,M,T,W,etc. | Enters his attendance hours by program or work category for each day of the two-week period. Nothing less than hourly increments is to be entered. Employees are to account for a full day's work per their employment agreement. |
| totals, reg.-OT | Enters the bi-weekly total hours for each line on the record. (Totals are to be calculated for each program and work category line.) Regular hours are to be separated from overtime hours. |
| total hours | Totals the hours worked each day, as well as the totals under the "Totals, Reg.-OT" column. Total hours recorded for each day must match total hours recorded by <u>program or work category</u> . |
| function (optional) | After calculating the "Total Hours" line, restates the grand total of all hours worked by function. Thus, if an employee is involved entirely |

| <u>Field</u> | <u>Definition or Entry Instruction</u> |
|---------------------------------|--|
| function (cont'd.) | in the preparation of food for the two-week period, he posts this time opposite the function line entitled "Preparation." If his time were split between serving food and preparing it, he would use both the "Preparation" and "Serving" lines. |
| employee's signature, date | Signs the form and dates it on the day he submits it to the school food manager. |
| manager's signature, date | The manager checks the validity and accuracy of the report, signs it, and dates it on the day he submits the report to the accounting department. |
| received by accountant, date | The person who receives and/or records the information signs it and dates it on the day the document was received in the department. |



APPENDIX I

PAYROLL JOURNAL (FIGURE I.1)

SPECIFICATION FOR COMPLETION

WORKSHEETS FOR JOURNAL DISTRIBUTION COMPUTATIONS (FIGURE I.2)

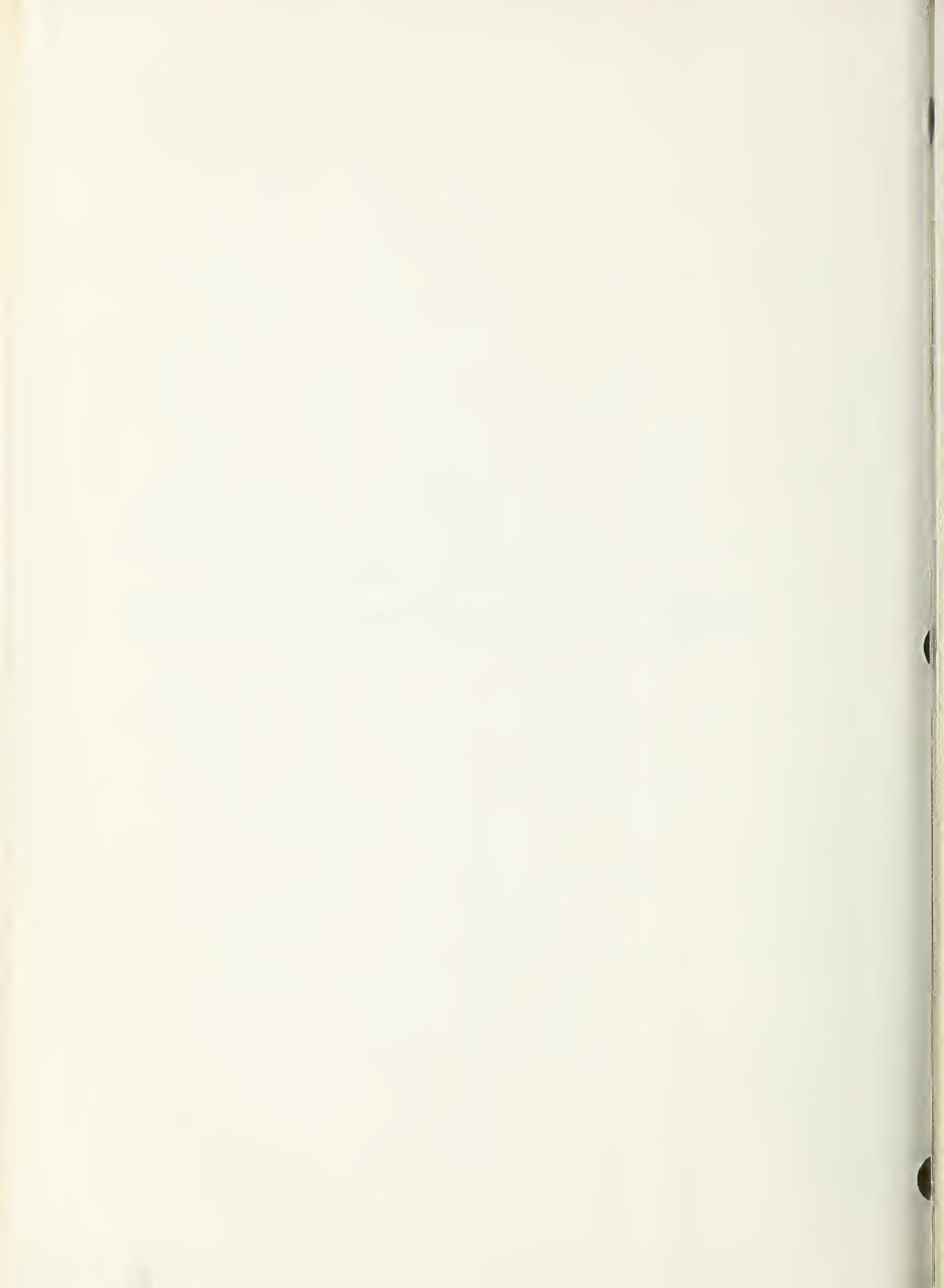


FIGURE I.1
PAYROLL JOURNAL

| | |
|------------|--|
| W.P. No. | |
| Accountant | |
| Date | |

School Location No. _____

| Line No. | Hourly Rate | Employee Name | Hours | | Earnings | | | Deductions | | | | | Net Pay | Pay Period | Check No. | G/L Acct. No. | Benefits Payable | | Payroll Account | | | Line No. | |
|----------|-------------|-------------------------|-------|----|------------|----------|------------|------------|----------|-----------|------------|----------|------------|------------|-----------|---------------|------------------|-----------|-----------------|------------|------------|----------|--|
| | | | Reg | OT | Regular | Overtime | Total | FICA | W.T. | Insurance | Retirement | Total | | | | | Unemployment | Life Ins. | Deposits | Disburse. | Balance | | |
| 1 | | Balance Forward | | | | | | | | | | | | | | | | | | | \$421.64 | 1 | |
| 2 | \$2.888 | James Bailey | 80 | | \$231.00 | | \$231.00 | \$12.00 | \$27.85 | \$2.50 | | \$42.35 | \$188.65 | 8/15 | 591 | | | | | | | 2 | |
| 3 | \$1.442 | Amy Rose | 80 | | 115.36 | | 115.36 | 6.00 | 20.59 | 2.50 | | 39.09 | 86.27 | 8/15 | 592 | | | | | | | 3 | |
| 4 | \$3.606 | Nancy Benjamin | 80 | | 288.48 | | 288.48 | 15.00 | 26.94 | 2.50 | | 44.94 | 244.04 | 8/15 | 593 | | | | | | | 4 | |
| 5 | \$3.906 | Sandra Julian | 80 | | 312.48 | | 312.48 | 16.25 | 34.34 | 2.50 | \$15.62 | 68.71 | 243.77 | 8/15 | 594 | | | | | | | 5 | |
| 6 | \$3.606 | Barbara James | 80 | 10 | 288.48 | \$54.09 | 342.57 | 15.00 | 58.40 | 2.50 | | 75.90 | 266.67 | 8/15 | 595 | | | | | | | 6 | |
| 7 | | Subtotal | | | \$1,235.80 | \$54.09 | \$1,289.89 | \$64.25 | \$168.12 | \$12.50 | \$15.62 | \$270.99 | \$1,029.40 | | | | | | | | | 7 | |
| 8 | | FICA-Employer | | | | | | \$64.25 | | | | | | | | | 42100 | | | | | 8 | |
| 9 | | Medical Insurance | | | | | | | | \$12.50 | | | | | | | 42500 | | | | | 9 | |
| 10 | | Unemployment Ins. | | | | | | | | | | | | | | | 42200 | \$5.00 | | | | 10 | |
| 11 | | Life Insurance Prem. | | | | | | | | | | | | | | | 42400 | | \$20.00 | | | 11 | |
| 12 | | Subtotal | | | | | | \$64.25 | | \$12.50 | | | | | | | | \$5.00 | \$20.00 | | | 12 | |
| 13 | | Total | | | \$1,235.80 | \$54.09 | \$1,289.89 | \$128.50 | \$168.12 | \$25.00 | \$15.62 | \$270.99 | \$1,029.40 | | | | | \$5.00 | \$20.00 | \$1,391.64 | \$1,029.40 | \$783.88 | |
| | | General Ledger Accounts | | | | 4030D | | | | | | | 2025C | | | | | 2025C | 2025C | | 1010C | | |



SPECIFICATION FOR

FIGURE I.1 - PAYROLL JOURNAL

PURPOSE

The payroll journal is used to enter all payroll related transactions including:

- . gross and net employee earnings;
- . employee deductions and employer contributions;
- . distribution of labor costs to functions and programs; and
- . deposits and disbursements from the payroll checking account.

TIMING

The payroll journal is prepared every pay period.

Basic information is drawn from the employee payroll records, which are normally prepared before the payroll journal.

SOURCE OF DATA

The sources of data are the time and attendance report and the employee payroll record.

DISTRIBUTION

After the payroll journal has been used to post amounts to the general ledger and payroll ledger, it is filed in chronological order with previous payroll journal sheets.

GENERAL

The sample payroll journal contains a payroll showing the pay for five employees, supplemented by four different employer contribution categories. The earnings and deductions sections would be copied from employee payroll records, and the function and program distributions would be copied from the applicable worksheets. The example shows total gross pay of \$1,289.89 (column 7), plus the following employer contributions:

| | | |
|-------------------------|---------|-------------|
| employer FICA | \$64.25 | (column 8) |
| medical insurance | \$12.50 | (column 10) |
| unemployment insurance | \$ 5.00 | (column 17) |
| life insurance premiums | \$20.00 | (column 18) |

The total cost is \$1,391.64, which is shown as a deposit to the payroll account (column 19). The net pay of \$1,029.40 (column 13) is also shown as a disbursement from the payroll account (column 20).

To make the form easier to use, basic payroll information is in the middle of the journal sheet. The following instructions are in the order in which the journal entries will be made.

FIELD DEFINITIONS

| <u>Field</u> | <u>Definition or Entry Instruction</u> |
|------------------------|--|
| employee name | The first line of all pages for a given pay period should contain balances forward from the previous pages. (For the "Payroll Account Balance" column, the first page contains the balance forward from the previous pay period.) Each employee's name is then listed separately. After the last employee name, there should be a subtotal line, followed by the name of each category of employer payroll costs (e.g., employer FICA taxes). The last line is a total line. |
| hourly rate | List the hourly pay rate for each employee. |
| hours | List the number of regular and overtime hours worked by each employee during the pay period. |
| earnings | List regular, overtime, and total gross pay for each employee. |
| deductions | List the deductions made from gross pay for each employee. There should be a separate column for each deduction. |
| employer contributions | List each employer contribution separately. For those costs where |

| <u>Field</u> | <u>Definition or Entry Instruction</u> |
|--|---|
| employer contributions (cont'd.) | both employee and employer each pay part of the cost, the employee deduction columns (8 through 12) should be used. For those costs entirely paid by the employer, separate columns (17 and 18) should be used. |
| net amount, pay period, and check no. | Enter each employee's net pay, the month and the last day of the pay period, and the number of the check used to pay the employee. |
| payroll account | Enter the deposit to the payroll account, which should be equal to the total "gross pay" column, plus all employee contributions (columns 8 through 12, 17, and 18). Enter total disbursements, which should equal the total "Employee Net Pay" column. Separate entries should be made when employee deductions and employer contributions are paid. |
| column 16 | When posting journal entries to the general ledger, indicate the accounts to which amounts have been posted. |

FIGURE I.2A - PROGRAM DISTRIBUTION WORKSHEET

| NAME | LUNCH Hours | Dollars | BREAKFAST Hours | Dollars | A LA CARTE Hours | Dollars | SPECIAL FUNCTIONS Hours | Dollars | TOTAL AND AMOUNTS | GENERAL LEDGER ACCOUNTS |
|-------------------------|----------------|----------|--------------------|----------|---------------------|----------|----------------------------|----------|-------------------|-------------------------------|
| J. Bailey ① | 20 | \$ 57.75 | 20 | \$ 57.75 | 20 | \$ 57.75 | 20 | \$ 57.75 | ② \$ 231.00 | |
| A. Rose | 40 | 57.68 | 20 | 28.84 | 10 | 14.42 | 10 | 14.42 | 115.36 | |
| N. Benjamin | 40 | 144.24 | 10 | 36.06 | 20 | 72.12 | 10 | 36.06 | 288.48 | |
| S. Julian | 20 | 78.12 | 20 | 78.12 | 20 | 78.12 | 20 | 78.12 | 312.48 | |
| B. James | 60 | 216.36 | | | 20 | 72.12 | 10 (OT) | 54.09 | 342.57 | |
| TOTALS ③ | | \$554.15 | | \$200.77 | | \$294.53 | | \$240.44 | ④ \$ 1,235.80 | 4030D 4010D |
| % OF TOTAL COST ⑤ | 43% | | 15% | | 23% | | 19% | | 100% | |
| Employers FICA ⑥ | \$ 27.62 | \$ 9.64 | | \$ 14.78 | | | \$ 12.21 | | ⑦ \$ 64.25 | 4210D |
| Medical Insurance | 5.37 | 1.88 | | 2.87 | | | 2.38 | | 12.50 | 4250D |
| Unemployment Insurance | 2.15 | .75 | | 1.15 | | | .95 | | 5.00 | 4220D |
| Life Insurance Premium | 8.60 | 3.00 | | 4.60 | | | 3.80 | | 20.00 | 4240D |
| Grand TOTALS By Program | ⑧ | \$579.89 | \$216.04 | | \$317.93 | | \$259.78 | | ⑨ \$1,391.64 | |
| Program Accounts ⑩ | 1D | | 2D | | 4D | | 5D | | | |

FIGURE I.2B
FUNCTION DISTRIBUTION WORKSHEET

| NAME | PURCHASING Hours Dollars | RECEIVING-STORING Hours Dollars | PREPARATION Hours Dollars | DELIVERY Hours Dollars | SERVING Hours Dollars | ADMINISTRATION Hours Dollars | TOTAL DOLLARS | GENERAL LEDGER ACCOUNTS |
|--------------------------|-----------------------------|------------------------------------|------------------------------|---------------------------|--------------------------|---------------------------------|------------------|-------------------------------|
| J. Bailey | 10 \$28.87 | | | 70 \$202.13 | | | \$231.00 | |
| A. Rose | | | | 10 14.42 | 70 \$100.94 | | \$115.36 | |
| N. Benjamin | | 80 \$288.48 | | | | | 288.48 | |
| S. Julian | 20 \$78.12 | 10 39.06 | 20 78.12 | 10 39.06 | 10 39.06 | 10 \$39.06 | 312.48 | |
| B. James | | | 60 216.36 | 10 (OT) 54.09 | | 20 72.12 | | 342.57 |
| TOTALS | \$78.12 | \$67.93 | (OT) \$ 54.09 | \$582.96 | \$255.61 | \$212.12 | \$1,289.89 | 4010.17 |
| PERCENT OF TOTAL COST | 6% | 5% | 48% | 20% | 18% | 3% | 100% | |
| Employers FICA | \$ 3.86 | \$ 3.21 | \$ 30.83 | \$ 12.85 | \$ 11.57 | \$ 1.93 | \$ 64.25 | 4210.17 |
| Medical Insurance | .74 | .63 | 6.00 | 2.50 | 2.25 | .38 | 12.50 | 4250.00 |
| Unemployment Insurance | .30 | .25 | 2.40 | 1.00 | .90 | .15 | 5.00 | 4220.00 |
| Life Insurance Premium | 1.20 | 1.00 | 9.60 | 4.00 | 3.60 | .60 | 20.00 | 4240.00 |
| Grand TOTALS by Function | \$84.22 | \$73.02 | \$685.88 | \$275.96 | \$230.44 | \$42.12 | \$1,391.64 | |
| Function Accounts | 10 | 20 | 30 | 40 | 50 | 60 | | |

SPECIFICATION FOR

FIGURE I.2A, I.2B - PROGRAM AND FUNCTION DISTRIBUTION WORKSHEETS

PURPOSE

The program and function distribution worksheets are used to distribute payroll costs to the various program and function accounts. The worksheets support the payroll journal and should always be attached to it.

TIMING

It is prepared prior to the payroll journal but after the employee payroll records.

SOURCE OF DATA

Basic data is drawn from both the employee payroll records and the employee time and attendance records.

DATA ENTRY

Because the two worksheets are used in the same manner, the discussion of illustrative entries and the discussion of report field definitions refer to the program distribution worksheet.

GENERAL

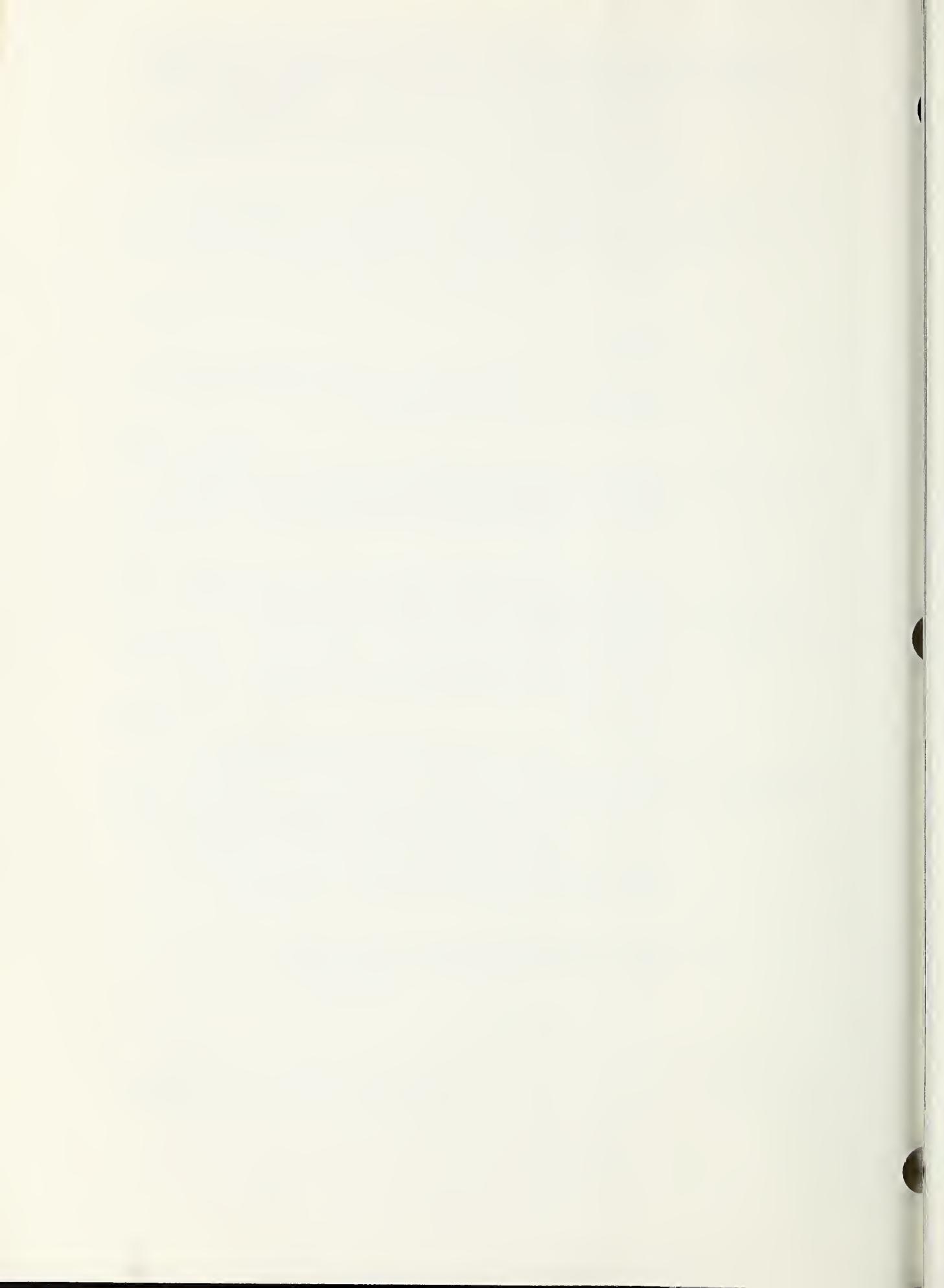
The illustrative entries shown on the sample program distribution worksheet show the gross pay distribution for five employees to four programs. The gross pay for each program accounts for the following percentages of the total.

| | |
|-------------------|-------------|
| lunch | 43 percent |
| breakfast | 15 |
| a la carte | 23 |
| special functions | <u>19</u> |
| Total | 100 percent |

The four employer contribution categories are distributed to the programs in the same percentage.

In the discussion below, each instruction corresponds to a circled number on Figure I.2A, program distribution worksheet.

1. Enter the name of each employee, the number of hours reported in each program, and the total pay for these hours. All overtime hours and pay should be so identified.
2. Calculate the total gross pay for each employee by adding the pay for each program. Make the necessary corrections to ensure that this amount is equal to the employees actual gross pay.
3. Calculate the total pay for each program for all employees.
4. Calculate the total gross pay for the pay period, ensuring that the gross pay by programs is equal to the gross pay for employees.
5. Calculate the percentage of total cost of each program by dividing the total gross pay into the total for each program, ensuring that the sum of the percentages is equal to 100 percent.
6. Calculate the amount of each employer contribution allocated to each program by multiplying the percentage of the total by the total contribution.
7. Add the amounts allocated to each program. Make corrections to ensure that this sum equals the actual cost.
8. Calculate the total payroll (labor) cost for each program.
9. Calculate the total payroll cost, ensuring that the sum of the gross pay, plus employer contributions, equals total program costs. This amount should equal the deposit made in the payroll checking account.
10. Note the payroll ledger accounts to which the distributed amounts have been posted.



APPENDIX J

GENERAL LEDGER POSTING (FIGURE J.1)

PAYROLL LEDGER POSTING (FIGURE J.2)

FIGURE J.1
GENERAL LEDGER POSTING

| Account No. <u>4010</u> Title <u>REGULAR SALARIES</u> | | | Page <u>40</u> | |
|---|----------------------------|------|----------------------------------|-----------------------------|
| Date | Description | Ref. | Transactions 4010D 4010C | Balance 4010D 4010C |
| 8/15 | To Record Salaries | PJ1 | \$1,235.80 | \$1,235.80 |
| | | | | |
| Account No. <u>4030</u> Title <u>OVERTIME PREMIUM</u> | | | Page <u>55</u> | |
| Date | Description | Ref. | Transactions 4030D 4030C | Balance 4030D 4030C |
| 8/15 | To Record Overtime | PJ1 | \$54.09 | \$54.09 |
| | | | | |
| Account No. <u>1030</u> Title <u>CASH IN BANK (Special Payroll)</u> | | | Page <u>4</u> | |
| Date | Description | Ref. | Transactions 1030D 1030C | Balance 1030D 1030C |
| 8/15 | Balance Forward | | | \$421.64 |
| 8/15 | Deposit 8/15 Payroll | PJ1 | \$1,391.64 | |
| 8/15 | Net Pay 8/15 Payroll | PJ1 | | \$783.88 |
| | | | | |
| Account No. <u>2025</u> Title <u>BENEFITS PAYABLE</u> | | | Page <u>20</u> | |
| Date | Description | Ref. | Transactions 2025D 2025C | Balance 2025D 2025C |
| 8/15 | Balance Forward | | | \$110.00 |
| 8/15 | To Record Benefits Payable | PJ1 | \$260.49 | \$370.49 |
| | | | | |

FIGURE J.2
PAYROLL LEDGER POSTING

Control Account No. 4010

Title REGULAR SALARIES

Page 40

FUNCTION ACCOUNTS (OPTIONAL)

| Account No. <u>10</u> | | Title PURCHASING | |
|-----------------------|--------------------|------------------|--------------|
| Date | Description | Ref. | Transactions |
| | | | Balance |
| | | | 100 10C |
| 8/15 | To Record Salaries | PJ1 | \$78.12 |
| | | | \$78.12 |

PROGRAM ACCOUNTS

| Account No. <u>1</u> | | Title BREAKFAST | |
|----------------------|--------------------|-----------------|--------------|
| Date | Description | Ref. | Transactions |
| | | | Balance |
| | | | 10 1C |
| 8/15 | To Record Salaries | PJ1 | \$200.77 |
| | | | \$200.77 |

Account No. 20

| Account No. <u>20</u> | | Title RECEIVING-STORING | |
|-----------------------|--------------------|-------------------------|--------------|
| Date | Description | Ref. | Transactions |
| | | | Balance |
| | | | 200 20C |
| 8/15 | To Record Salaries | PJ1 | \$67.91 |
| | | | \$67.91 |

J.3

Account No. 2

| Account No. <u>2</u> | | Title TYPE A LUNCH | |
|----------------------|--------------------|--------------------|--------------|
| Date | Description | Ref. | Transactions |
| | | | Balance |
| | | | 20 2C |
| 8/15 | To Record Salaries | PJ1 | \$554.15 |
| | | | \$554.15 |

Account No. 40

| Account No. <u>40</u> | | Title PREPARATION | |
|-----------------------|--------------------|-------------------|--------------|
| Date | Description | Ref. | Transactions |
| | | | Balance |
| | | | 300 30C |
| 8/15 | To Record Salaries | PJ1 | \$582.96 |
| | | | \$582.96 |

Account No. 4

| Account No. <u>4</u> | | Title A LA CARTE | |
|----------------------|--------------------|------------------|--------------|
| Date | Description | Ref. | Transactions |
| | | | Balance |
| | | | 40 4C |
| 8/15 | To Record Salaries | PJ1 | \$294.53 |
| | | | \$294.53 |

Account No. 5

| Account No. <u>5</u> | | Title SPECIAL FUNCTIONS | |
|----------------------|--------------------|-------------------------|--------------|
| Date | Description | Ref. | Transactions |
| | | | Balance |
| | | | 50 5C |
| 8/15 | To Record Salaries | PJ1 | \$240.44 |
| | | | \$240.44 |

GENERAL LEDGER

Amounts in the payroll journal are posted directly to the appropriate general ledger accounts at the end of each pay period. The general ledger accounts to which the journal entries are posted are noted on the payroll journal. The sample entries show postings to only four accounts from the sample payroll journal shown in Appendix I.

PAYROLL LEDGER

The program and function distributions in the program and function distribution worksheets are posted to the payroll ledger. This ledger may be set up in a variety of ways, such as:

- . a separate page for each program or function for each general ledger account;
- . a separate page for programs and another for functions for each general ledger account; and
- . a single large page for both programs and functions for each general ledger account.

In any event, the payroll ledger supports the general ledger. Therefore, a duplicate general ledger posting to the control account should be made. Postings to the program accounts and to the function accounts must add up to the control account postings.

The sample entries show three of six function accounts and all program accounts from the sample payroll journal shown in Appendix I. The sample payroll ledger shows partial postings for the regular salaries account. Postings are also required for the overtime premium account and each of the employee benefit accounts.

APPENDIX K
EMPLOYEE PAYROLL RECORD (FIGURE K.1)
SPECIFICATIONS FOR COMPLETION OF RECORD

K.1

FIGURE K.1
EMPLOYEE PAYROLL RECORD

SPECIFICATION FOR

FIGURE K.1 - EMPLOYEE PAYROLL RECORD

PURPOSE

The purpose is to maintain an individual record for each school food service employee, showing payroll payment history for each payroll period of the current year and the year to date. The individual earnings record is established and maintained to report income and social security information for federal and state income tax purposes.

TIMING

Individual earnings information is posted each time the payroll is processed. It is usually posted before the payroll journal is prepared.

SOURCE OF DATA

Sources of data for the record are as follows:

- . time and attendance record for hours worked;
- . personnel forms, including employee action notices;
- . W-4 Form (social security number);
- . medical insurance application; and
- . withholding and FICA tax tables.

DISTRIBUTION

After the record is completed by the accountant, it is filed in alphabetical order by employee name.

GENERAL

The accountant establishes and maintains the employee's leave record on the reverse side of the record according to the school district's vacation, holiday, and sick leave policies. Employee status information is taken directly from the time and attendance record.

Figure K.1 displays the payroll record with entries for one payroll period, using payroll figures for one employee for which information is also entered on the payroll journal (Appendix I).

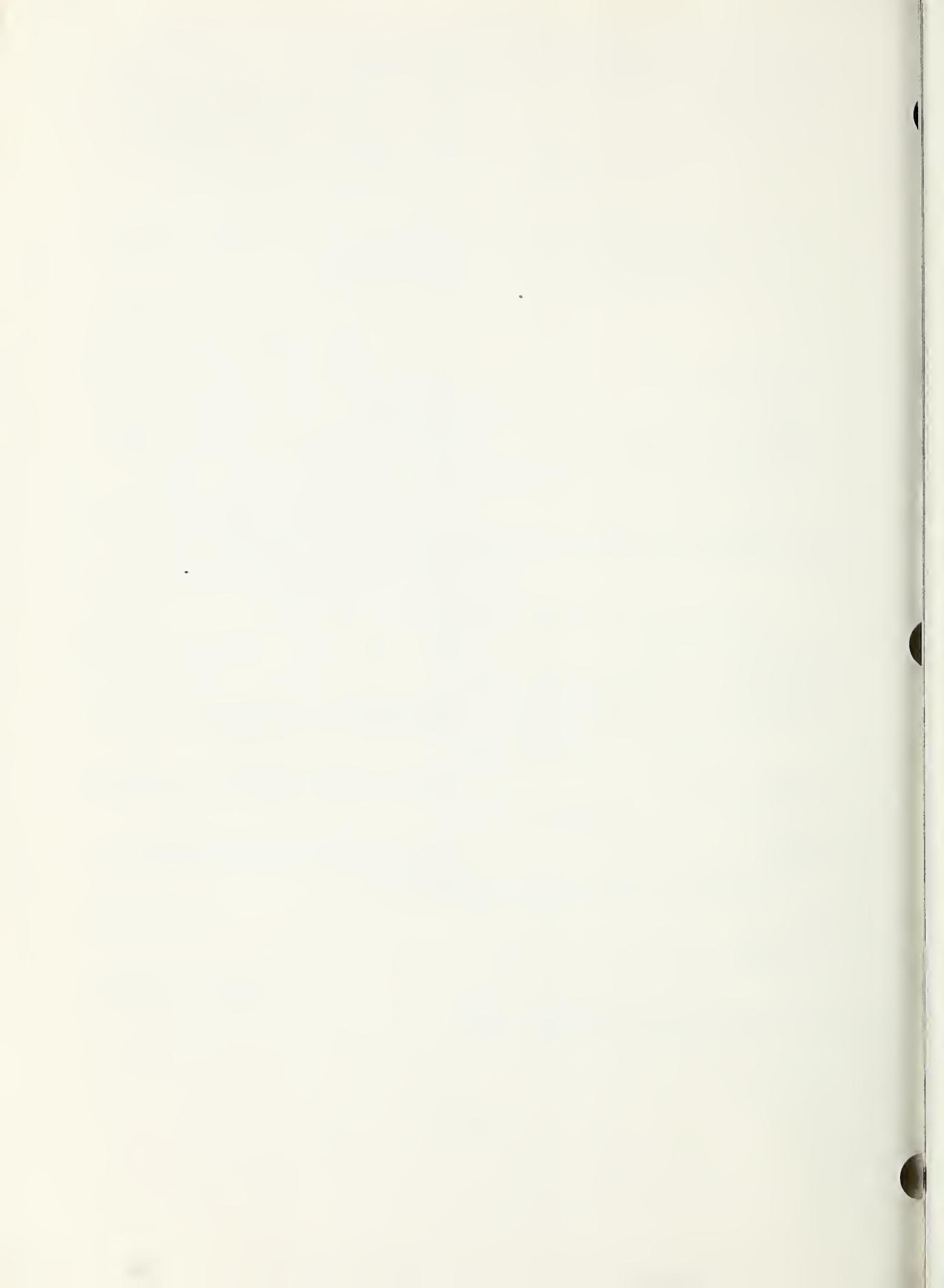
Pertinent information concerning this illustration is as follows:

- . No overtime was worked by the employee during the period.
- . The employee worked 80 hours within the payroll period. Therefore, the standard deduction line may be referenced for entering deduction information for this particular payroll period.

REPORT FIELD DEFINITIONS

| <u>Field</u> | <u>Definition</u> |
|------------------------|--|
| name | The accountant enters the employee's full name when the record is established |
| social security number | Enter the Social Security number from the W-4 Form or other personnel record. |
| address | Enter the home address of the employee. |
| hourly rate | Enter the regular hourly earnings of the employee. The rate is calculated to the nearest one-tenth of a cent (e.g., \$2.885 -- see example, Figure K.1). |
| yearly rate | Enter the annual regular earnings for the employee. |
| two-week rate | Enter the payroll regular earnings rate (hourly rate X 80 hours). |
| total hours | Enter the number of hours worked by the employee for each pay period. |
| earnings - regular | Enter the product of regular hours worked multiplied by the hourly rate (total hours X hourly rate). |

| <u>Field</u> | <u>Definition</u> |
|--|---|
| earnings-OT | Enter the product of overtime hours worked multiplied by one and one-half times the hourly rate (according to payroll policies and contractual agreements.) (overtime hours X hourly rate X 1.5). |
| total | Enter the sum of regular and overtime earnings. |
| YTD | Add the prior year-to-date balance to the current <u>total</u> amount. |
| deductions: FICA, W.T. Ins. Ret. | Enter the amounts of bi-weekly payroll deductions for FICA, federal withholding, state withholding, medical insurance premiums, and retirement payments. A standard entry line appears above these column headings to provide the accountant with a ready source of reference for completing period payroll deductions when the employee's earnings occur at his regular hourly rate. |
| deductions - total | Enter the sum of columns 6,7,8, and 9. |
| net amount | Enter total earnings less total deductions (i.e., the fourth column minus the tenth column). |
| period ending | Enter the month and day on which the payroll period ends. |
| number | Enter the check number of the payroll check submitted to the employee. |



APPENDIX P

ALLOCATION WORKSHEET FOR PURCHASED SERVICES, INDIRECT LABOR,
AND OTHER EXPENSES (FIGURE P.1)

SPECIFICATION FOR USE OF ALLOCATION WORKSHEET

FIGURE P.1
ALLOCATION WORKSHEET FOR PURCHASED SERVICES,
INDIRECT LABOR, AND OTHER EXPENSES

| ① Amount To Be Allocated: | | \$90.00 | A | | ② Cost Being Allocated: | Trash Removal | ⑧ Amount Allocated $D_n \times A = E_n; A = F$ |
|---------------------------|--------------|--|-----|------------------------------------|-------------------------|---------------|---|
| ③ School or Program Name | | ④ Allocation Basis: Cost of Food Sold | | ⑥ Percentage $B_n \div C = D_n$ | | ⑦ 100.0% | |
| Greenwood School | 1 | \$640.00 | B1 | 33.3% | D1 | \$29.97 | E1 |
| Franklin School | 2 | 965.00 | B2 | 50.1 | D2 | 45.09 | E2 |
| Hoyt School | 3 | 320.00 | B3 | 16.6 | D3 | 14.94 | E3 |
| | 4 | | B4 | | D4 | | E4 |
| | 5 | | B5 | | D5 | | E5 |
| | 6 | | B6 | | D6 | | E6 |
| | 7 | | B7 | | D7 | | E7 |
| | 8 | | B8 | | D8 | | E8 |
| | 9 | | B9 | | D9 | | E9 |
| | 10 | | B10 | | D10 | | E10 |
| | 11 | | B11 | | D11 | | E11 |
| | 12 | | B12 | | D12 | | E12 |
| | 13 | | B13 | | D13 | | E13 |
| | 14 | | B14 | | D14 | | E14 |
| | 15 | | B15 | | D15 | | E15 |
| | 16 | | B16 | | D16 | | E16 |
| | 17 | | B17 | | D17 | | E17 |
| | 18 | | B18 | | D18 | | E18 |
| | 19 | | B19 | | D19 | | E19 |
| | 20 | | B20 | | D20 | | E20 |
| | 21 | | B21 | | D21 | | E21 |
| | 22 | | B22 | | D22 | | E22 |
| | 23 | | B23 | | D23 | | E23 |
| | 24 | | B24 | | D24 | | E24 |
| | 25 | | B25 | | D25 | | E25 |
| Total | ⑤ \$1,925.00 | | C | ⑦ 100.0% | | ⑨ \$90.00 | F |

SPECIFICATION FOR

FIGURE P.1 - USE OF ALLOCATION WORKSHEET FOR
PURCHASED SERVICES, INDIRECT LABOR, AND OTHER EXPENSES

PURPOSE AND USE

The allocation worksheet for purchased services, indirect labor, and other expenses should be used to make all allocations to both locations and programs, except the allocation of cost of food sold to programs, and for all allocations from other funds to the school food service fund. The form can be used to allocate costs to up to 25 locations. If an allocation is to more than 25 locations, additional sheets should be used and labeled.

INSTRUCTIONS

1. Enter the total amount that must be allocated (Amount A).
2. Enter the title of the cost being allocated.
3. Enter the name of each location or program to which the cost must be allocated.
4. Enter the name of the allocation basis, which may be total revenue, cost of food sold, direct hours of use, etc. Enter the amount of the base applicable to each program or location. ("n" represents the number of programs or locations to which allocations are to be made.)
5. Add amounts B₁ through B_n and enter the total of the allocation basis (Amount C).
6. Divide Amount C into amount B₁ . . . B_n to arrive at the percentage applicable to each program or location (Amount D_n).
7. Add Amounts D₁ . . . D_n to ensure that the total is equal to 100 percent.
8. Multiply amounts (the percentages) D₁ . . . D_n by amount A to arrive at the amount allocated to each program or location (amount E_n). Enter these amounts in the income statement (or worksheet) of the program or location.

9. Add amounts El . . . En to ensure that the total amount allocated is equal to the total amount to be allocated (amount A).

ILLUSTRATION (SEE FIGURE P.1)

1. and 2. The monthly cost of \$90 for trash removal for the school district food services is to be allocated.
3. The allocation is to be made to three schools -- Greenwood, Franklin, and Hoyt.
4. The allocation basis is cost of food sold of which the three schools have incurred year-to-date costs in the following amounts:

| | |
|------------------|----------|
| Greenwood School | \$640.00 |
| Franklin School | \$965.00 |
| Hoyt School | \$320.00 |

5. The total cost of food sold for the three schools is \$1,925.
6. The three schools accounted for the following percentages of cost of food sold:

| | |
|------------------|------------------|
| Greenwood School | 33.3% (640/1925) |
| Franklin School | 50.1% (965/1925) |
| Hoyt School | 16.6% (320/1925) |

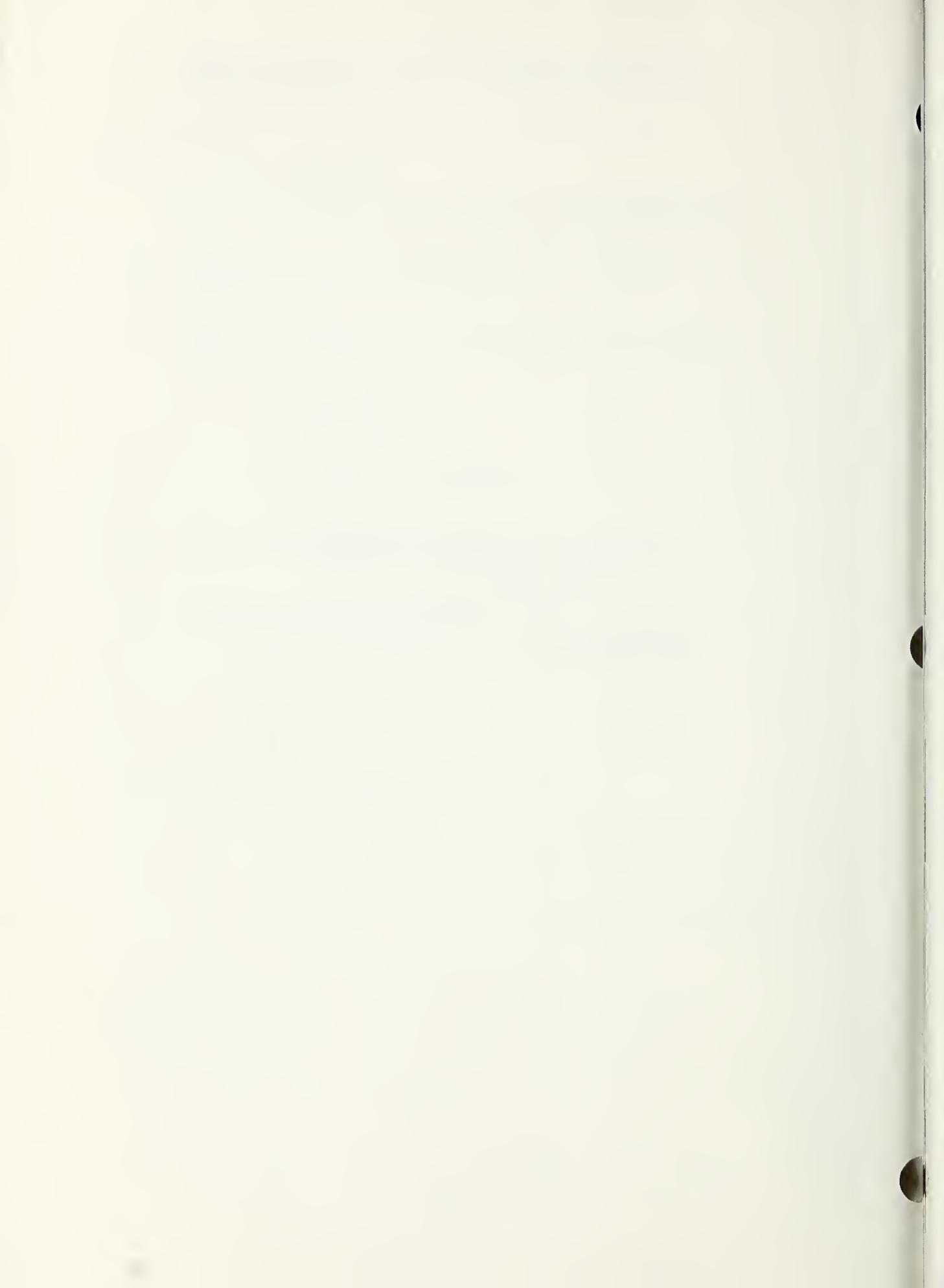
7. The amounts allocated to each school are:

| | |
|------------------|-------------------------|
| Greenwood School | \$29.97 (33.3% of \$90) |
| Franklin School | \$45.09 (50.1% of \$90) |
| Hoyt School | \$14.94 (16.6% of \$90) |

APPENDIX Q

FIGURE Q.1 - ALLOCATION WORKSHEET FOR
COST OF FOOD SOLD TO PROGRAMS

SPECIFICATION FOR USE OF ALLOCATION WORKSHEET



SPECIFICATION FOR USE OF ALLOCATION WORKSHEET FOR
COST OF FOOD SOLD TO PROGRAMS

PURPOSE AND USE

The Allocation Worksheet for Cost of Food Sold to Programs is to be used to make allocations to programs at individual school locations. Three location allocations may be made on a single sheet.

INSTRUCTIONS

1. Enter the cost of food sold to be allocated to programs.
2. Enter the name of the school location.
3. Enter the names of the programs to which the costs are to be allocated.
4. Enter the number of meals served in each program (amounts B1 through B5).
5. Enter the standard meal cost for each type of meal (amounts C1 through C5).
6. Multiply amounts B1 through B5 by amounts C1 through C5, respectively, to arrive at the total standard meal cost for each type of meal (amounts D1 through D5).
7. Add amounts D1 through D5 to arrive at the total standard meal cost (amount E).
8. Divide amount E into amounts D1 through D5 to arrive at the percentage assignable to each program (amounts F1 through F5).
9. Make certain the sum of amounts F1 through F5 is equal to 100 percent.
10. Multiply amounts F1 through F5 by amount A to arrive at the amounts allocated to each program. Make certain that the sum of these amounts (amount G) is equal to amount A.

EXPLANATION OF SAMPLE ENTRIES

1. and 2. The total cost of goods sold at Greenwood School is \$165.39.
3. The total is to be allocated to two programs, breakfast and type A lunch.
4. The following number of meals were served:

| | |
|--------------|-----|
| Breakfast | 110 |
| Type A Lunch | 238 |

5. The standard meal costs are:

| | |
|--------------|--------|
| Breakfast | \$.28 |
| Type A Lunch | \$.54 |

6. The total standard costs for each meal type are:

| | |
|--------------|-------------------------|
| Breakfast | \$30.80 (110 X \$.28) |
| Type A Lunch | \$128.52 (238 X \$.54) |

7. The total standard cost is \$159.32 (\$30.80 + \$128.52)

8. The percentage shares by program are:

| | |
|--------------|-----------------------------|
| Breakfast | 19.3% (\$30.80 ÷ \$159.32) |
| Type A Lunch | 80.7% (\$128.52 ÷ \$159.32) |

9. $19.3\% + 80.7\% = 100\%$

10. The amounts to be allocated are:

| | |
|--------------|---------------------------|
| Breakfast | \$31.92 (19.3% X 165.39) |
| Type A Lunch | \$133.47 (80.7% X 165.39) |



FIGURE Q.1
ALLOCATION WORKSHEET FOR COST OF FOOD SOLD TO PROGRAMS

| Amount To Be Allocated: ① <u>\$165.39</u> | | | | | A | Name of School: ② <u>Greenwood School</u> | | | | |
|---|--------------------------|----------------------|--|----|----------------------------------|---|---|---|---|--|
| ③ Type of Meal | ④ Number of Meals Served | ⑤ Standard Meal Cost | ⑥ Total Standard Cost ($S_n \times C_n$) | ⑦ | ⑧ Percent of Total ($D_n + E$) | ⑨ | ⑩ Amount To Be Allocated ($F_n \times A$) | G | | |
| Breakfast | 1 110 | .81 \$.28 | C1 \$ 30.80 | D1 | 19.3% | F1 | \$ 31.92 | | | |
| Type A Lunch | 2 238 | .82 .54 | C2 128.52 | D2 | 80.7% | F2 | 133.47 | | | |
| | 3 B3 | | C3 | D3 | | F3 | | | | |
| | 4 B4 | | C4 | D4 | | F4 | | | | |
| | 5 B5 | | C5 | D5 | | F5 | | | G | |
| Total | 348 | | (7) \$159.32 | E | (9) 100.0% | | \$165.39 | | | |

| Amount To Be Allocated: <u>\$256.19</u> | | | | | A | Name of School: <u>Franklin School</u> | | | | |
|---|-------|-----------|-------------|--------------|-------|--|----------|---|---|--|
| Breakfast | 1 73 | .81 \$.28 | C1 \$ 20.44 | D1 | 8.3% | F1 | \$ 21.26 | G | | |
| Type A Lunch | 2 419 | .82 .54 | C2 226.26 | D2 | 91.7% | F2 | 234.93 | | | |
| | 3 B3 | | C3 | D3 | | F3 | | | | |
| | 4 B4 | | C4 | D4 | | F4 | | | | |
| | 5 B5 | | C5 | D5 | | F5 | | | G | |
| Total | 492 | | | (7) \$246.70 | E | 100.0% | \$256.19 | | | |

| Amount To Be Allocated: <u>\$282.23</u> | | | | | A | Name of School: <u>Hoyt School</u> | | | | |
|---|-------|-----|----|----|--------|------------------------------------|---|--|---|--|
| Type A Lunch* | 1 503 | .81 | C1 | D1 | F1 | \$282.23 | G | | | |
| | 2 B2 | | C2 | D2 | F2 | | | | | |
| | 3 B3 | | C3 | D3 | F3 | | | | | |
| | 4 B4 | | C4 | D4 | F4 | | | | | |
| | 5 B5 | | C5 | D5 | F5 | | | | G | |
| Total | 503 | | | E | 100.0% | \$282.23 | | | | |

*No allocation required since only one program is involved.

APPENDIX R
CASH RECEIPTS AND DISBURSEMENTS JOURNAL
FOR SMALL SCHOOL DISTRICTS
SPECIFICATIONS (COLUMN HEADING DEFINITIONS)
FOR CASH RECEIPTS AND DISBURSEMENTS JOURNAL



FIGURE R.1

CASH RECEIPTS AND DISBURSEMENT JOURNAL FOR SINGLE UNIT SCHOOLS

Page M.

CR-DJ

| Line No. | Date | Remarks | Cash | | Accts. Rec. | | Sales, Pupils | Sales, Adults | Price Reduct. | Misc. Revenue (Local) | State Revenue | Federl Revenue | Salary Expense | | Food Expense | Supplies Expense | Other Expense | | Liabilities | | Check # | Cash Balance | | |
|----------|------|----------------------------------|--------|--------|-------------|--------|---------------|---------------|---------------|-----------------------|---------------|----------------|----------------|-----------|--------------|------------------|---------------|-----------|-------------|-----------|---------|--------------|--------|----------|
| | | | 1010D | 1010C | 1100D | 1100C | | | | | | | Amt. | Acct. No. | | | Amt. | Acct. No. | Amt. | Acct. No. | | | | |
| 1 | 9/1 | Meal Sales | 255.00 | | | | 500.00 | | 245.00 | | | | | | | | | | | | | | 750.00 | |
| 2 | 9/2 | Federal Reimb. Rec. | 250.00 | | | 250.00 | | | | | | | | | | | | | | | | | | 1,005.00 |
| 3 | 9/3 | Federal Reimb. Claim | | | 85.00 | | | | | | | | | | | | | | | | | | | 1,255.00 |
| 4 | 9/4 | PTA Dinner (Payment Due) | | | 300.00 | | | | | | | | 85.00 | | | | | | | | | | | |
| 5 | 9/5 | State Reimbursement Claim | | | 260.00 | | | | | | | | 260.00 | | | | | | | | | | | |
| 6 | 9/8 | PTA Dinner, 9/4, Payment | 300.00 | | 300.00 | | | | | | | | | | | | | | | | | | | 1,555.00 |
| 7 | 9/11 | James Bailey, Salary, 9/5 | | 188.65 | | | | | | | | | 231.00 | 40000 | | | | | | | | | | 1,366.35 |
| 8 | 9/11 | Barbara James, Salary, 9/5 | | 266.67 | | | | | | | | | 288.48 | 40000 | | | | | | | | | | 1,099.68 |
| 9 | 9/11 | Barbara James, Overtime, 9/5 | | | | | | | | | | | 54.09 | 41000 | | | | | | | | | | |
| 10 | 9/12 | Greenfield Dairy, #12-496 | | | | | | | | | | | | | 87.50 | | | | | | | | | |
| 11 | 9/12 | United Supply, #W-143 | | | 74.60 | | | | | | | | | | | 74.60 | | | | | | | | |
| 12 | 9/12 | Eastern Union Tel. Co. (Payment) | | 22.50 | | | | | | | | | | | | | | | | | | | | 22.50 |
| 13 | 9/15 | Handy Hardware Co. (Payment) | | 34.39 | | | | | | | | | 1.81 | | | | | | | | | | | 36.20 |
| 14 | 9/16 | United Supply (Payment) | | 134.28 | | | | | | | | | 14.92 | | | | | | | | | | | 149.20 |
| | | | | | | | | | | | | | | | | | | | | | | | 908.51 | |



SPECIFICATION FOR

FIGURE R.1 - CASH RECEIPTS AND DISBURSEMENTS JOURNAL

FOR SMALL SCHOOL DISTRICTS

PURPOSE

The cash receipts and disbursements journal for small schools districts is the book of original entry for the following types of transactions

- . all cash receipts;
- . all meal sales;
- . all recordings of accounts receivable;
- . gross and net employee earnings;
- . employee deductions and employer contributions;
- . expenses and increases in inventories and liabilities; and
- . disbursement made from the cash account.

TIMING

Entries are made on a daily basis to this journal. Receipts are entered on the same day of actual receipt of cash or checks. Journal entries for payroll transactions are prepared every pay period. Purchases transactions are made when the vendor's invoice is received and verification of receipt of the invoiced goods has been determined. Disbursement transactions are recorded as approved payments are made.

SOURCE OF DATA

- . Revenue
 - . cash receipts and participation report, and
 - . checks and transfer entries received.
- . Expense
 - . employee time and attendance report,
 - . employee payroll records maintained for all school district personnel,
 - . vendor invoices,
 - . purchase orders, and
 - . receiving reports.

DISTRIBUTION

After the journal has been used to post amounts to the general ledger, it is filed in chronological order with journal sheets that have previously been posted.

FIELD DEFINITIONS

| <u>Field</u> | <u>Definition or Entry Instruction</u> |
|---|--|
| page no. _____ | The page number of the journal. Pages are sequentially numbered. |
| date | Enter the month/day on which the journal entry is made. |
| remarks | A brief description as to the type of entry to be made. Payroll entries should include the period for which the payroll check is being prepared. Purchase entries should reference vendor invoice numbers. Payment entries should be indicated as such in this column. |
| cash | Enter amounts for all cash received in column <u>1010D</u> . Enter amounts for cash disbursed in column <u>1010C</u> . |
| accounts receivable | Enter amounts due from others in column <u>1100D</u> . Enter amounts paid but previously due from creditors in column <u>1100C</u> . |
| sales, pupils sales, adults miscellaneous revenue | As sales are made each day to pupils, adults, or organizations using food service operations, enter the amount of the revenue in the appropriate column. |
| price reduction | Enter the total amount of price reduced meals sold. |
| state revenue federal revenue | As revenue is <u>earned</u> from either the State or Federal Government, the amount earned is recorded in the appropriate columns. |
| salary expense | All payroll expense amounts are entered in this column, including salaries to food service personnel and benefits paid. The column is subdivided so that specific account |

| <u>Field</u> | <u>Definition or Entry Instruction</u> |
|----------------------------------|--|
| salary expense (cont'd.) | numbers (4000D, 4100D, 4200D) may be entered next to each amount entered. Identical account numbers are grouped and totalled at the end of the accounting period for posting to general ledger accounts. |
| food expense supplies expense | Enter the amounts of expense for food and supplies in the appropriate column as the expenses are incurred. |
| other expenses | This column is subdivided so that specific account numbers for purchased services (4300D), equipment (4700D, 4750D), and other (4800D) may be entered opposite each amount as the expense is incurred. |
| liabilities | Accounts payable (2000C, 2000D) and accrued liabilities (2200C, 2200D) amounts are entered in this column as they are incurred. |
| check number | The number on the check by which the vendor or employee is to be paid. |
| cash sales | The cash amount available for disbursement. This balance serves as a reference to the accountant in the payment of bills so that the fund's cash account does not become overdrawn. |

NOTES ON USE

- a. Begin a new page each month.
- b. Ensure that the dollar amounts for all "D" account are equal to the dollar amount recorded for "C" accounts.
- c. Record negative amounts by enclosing them in parentheses.
- d. Total all columns which are not subdivided at the end of the month and record the totals in the general ledger. Group and total amounts for identical account numbers in the sub-divided columns, using a worksheet for these computations, and post these totals to the general ledger.

ILLUSTRATIVE ENTRIES

The journal shown in Figure T.1 displays fourteen sample entries. These entries include revenue, payroll, and other expense transactions. The individual transactions are described as follows:

| <u>Line No.</u> | <u>Description</u> |
|-----------------|---|
| 1. | Meals were sold to pupils for which \$255.00 was received on September 1. The cash balance on that date before the transaction was posted was \$755.00 |
| 2. | A federal reimbursement check for \$250.00 was received on 9/2. |
| 3. | The school food services manager completed and submitted the monthly claim for reimbursement to the Federal Government. The amount claimed was \$85.00 |
| 4. | On September 4, the PTA used the food service facilities for a banquet, and the fund incurred expenses on behalf of the Association in the amount of \$300.00. |
| 5. | On September 5, a state reimbursement claim was filed for \$260.00. |
| 6. | The PTA submitted a check in full payment for fund expenses incurred. |
| 7, 8, 9. | Food service fund employees were paid for the period ending September 5. |
| 10. | Greenfield Dairy presented an invoice to the school food service fund on 9/12. |
| 11. | Supplies were purchased by the fund on 9/12. The total amount of the purchase order was \$149.20. Half of the order was purchased on behalf of the school's general fund. |
| 12, 13, 14. | Three vendor payments were made. Check numbers 593, 594, and 595 were issued. Two payments involved discounts of \$1.81 and \$14.92. |

GLOSSARY¹

Account - a descriptive heading under which similar financial transactions, such as assets and liabilities, are recorded.

Accounting - the recording and reporting of financial transactions. Accounting is subdivided as follows:

- . system design - establishing internal controls and recording methods;
- . bookkeeping - keeping transaction records;
- . auditing - testing and reviewing records for propriety and accuracy; and
- . reporting - informing other individuals or parties of the information contained in the records.

Accounting Entity - any organization or its subdivision for which a separate accounting system is maintained. A fund such as the school food service fund, is an accounting entity.

Accounting Period - a specific time period for which financial statements are prepared. The most common accounting periods are the month and year. The day and week are also used.

Accounting System - the total structure of records and procedures which classify, record, and report information on the financial position and operations of an accounting entity.

Accruals - transactions, or bookkeeping entries, which adjust an accounting system to reflect revenue when it is earned though not yet collected and expenditures when incurred but not yet paid. A system which includes as revenue only cash received and as expenditures only cash paid out is said to be on a "cash basis." Accruals, therefore, convert cash basis accounting to an accrual basis. Accruals may be made at any time during the accounting period or at the end of an accounting period.

Accrual Basis (of Accounting) - the basis of accounting under which revenues are recorded when earned, regardless of when cash is received, and expenditures are recorded when goods or services are used, regardless of when cash is disbursed. Accrual accounting contrasts with the cash basis. Under the accrual basis, as soon

¹

Underlined terms in the definitions are defined elsewhere in the glossary.

as legal title has passed to buyer or seller it is recorded on the accounting records. Under this method of accounting, the accounting books are always more complete, therefore, affording a sound basis for preparing informative periodic financial statements.

Accrued Expenses (or Costs) - expenses which have been incurred but have not yet been paid (e.g., salaries earned by employees but not yet paid).

Accrued Revenue - revenue which has been earned but for which cash has not yet been received (e.g., revenue resulting from charge sales).

Accumulated Depreciation - the total amount of depreciation applicable to a fixed asset or group of fixed assets which has (have) been charged in all accounting periods.

Activity (for an Accounting Period) - for any general ledger account, the difference between the balance at the end of the period and the balance at the beginning of the period.

Adjusting Entries - the entries made at the end of an accounting period to record depreciation and accruals or to correct errors. An example is an entry to record the difference between perpetual inventory and a physical inventory.

Allocation Basis - a cost, revenue, or other measure directly chargeable, or allocated, to a location or program; a percentage of which will be used to allocate another cost.

Appropriation - an amount made available for expenditure for a particular purpose during a specific time period.

Assets - the entire property and anything of value owned by the accounting entity. Assets are normally subdivided into current assets, and fixed assets.

Audit - the examination of records and documents and the accumulation of other information for one or more of the following purposes:

- . determining the propriety of proposed or completed transactions;
- . ascertaining if all transactions have been recorded; or
- . determining if transactions are recorded accurately in the accounts and in the statements drawn from the accounts.

Balance Sheet - a summarized statement of the financial condition of an accounting entity, or group of entities, showing assets, liabilities, and equity (or fund balance) as of a certain date. The balance sheet is sometimes called a position statement.

Books of Account - all the books of original and final entry, and the invoices, vouchers, contracts, and correspondence that result from the accounting system operation.

Book of Final Entry - the general ledger; one of the books of account.

Book of Original Entry - a journal, or journals; another type of the book of account. The journal, often referred to as a book of original entry, serves as a diary in which each transaction or batch of transactions is recorded intact. The next step is to record these over again the ledgers, or books of final entry. In this manual, the following books of original entry are recommended: purchase journal; disbursements journal; payroll journal; and receipts journal.

Budgetary Accounts - those general ledger accounts used in final accounting for the administrative control of expenditures.

Cash Basis (of Accounting) - the basis of accounting in which revenue and expenses are recognized only when cash is received or disbursed. Cash basis of accounting contrasts with the accrual basis.

Cash Receipts - cash acquired by the school food service fund or location. Cash receipts must not be confused with revenue which represents the value of income earned, or with sales, which represents the value of meals delivered.

Central Preparation Site - a central kitchen where meals are prepared to be delivered and served at one or more satellite services.

Change Bank - an amount of cash kept on hand for the purpose of making change, generally not handled on an imprest basis.

Chart of Accounts - a list of accounts systematically arranged, which are applicable to a specific accounting entity. The chart of accounts gives account names and numbers, if any. The term is frequently used to mean the chart of general ledger accounts; however, other accounts can be included.

Closing Entries - the entries made at the end of an accounting period (usually at the end of a year) which bring the balance of revenue and expense accounts to zero and which adjust the fund balance accounts for income earned during the period.

Cost per Meal - total costs incurred during an accounting period divided by the number of meals served. Frequently, a separate figure is calculated for each type of meal served.

Credit - in double entry bookkeeping, an entry on the right side of an account or ledger. Credits reduce asset and expense accounts, and increase liability, equity, and revenue accounts.

Cost - the amount of money or money's worth given for property or services. A cost is an asset value; it may still be traced within the organization. Thus, the labor of a server on the service line may be traced to the function or program on which he is working. It is an expenditure or outlay of cash, other property, or services for services or goods purchased. For this manual, the term's most common usage is found in "cost of food sold." In this context, cost relates only to material costs (food costs) incurred intentionally to produce the revenues of the accounting period. In this sense, "cost" is defined as a special type of expense.

Cost Accounting - that method of accounting which provides for assembling, recording, and totaling all the elements of cost incurred to accomplish a purpose, to carry on an activity (or operation), or to complete a unit of work (e.g., a meal).

Current Assets - those items which are readily convertible to cash or which will be consumed within a year.

Current Liabilities - those liabilities which are due and payable within a year.

Current Ratio - the ratio between current assets and current liabilities.

Debit - in double entry bookkeeping, an entry on the left side of an account or ledger. Debits increase asset and expense accounts and reduce liability, equity, and revenue accounts.

Depreciation - loss in value or service life of fixed assets because of wear and tear, use, elapse of time, inadequacy, or obsolescence.

Depreciation Expense - that amount of depreciation charged to a particular accounting period. Accumulated depreciation is the total amount of depreciation applicable to a fixed asset or group of fixed assets which has been charged in all accounting periods.

Direct Cost - those elements of cost which can be easily and conveniently identified with and charged to a specific activity or activities. Direct cost is opposite of those elements of cost incurred simultaneously for several different activities and which are, therefore, not readily identifiable with a specific activity.

Direct Labor - either hours or cost of labor that can be easily and conveniently identified with and charged to a specific activity.

Disbursement - payment in cash, or by check, for the purpose of acquiring an asset or service. Disbursements are made from time to time as needed. The term is not synonymous with expenditure, which has a broader definition; a disbursement is one type of expenditure.

Donated Commodity - food supplies which are provided to the school food service fund free or at a minimal charge (for storage, handling, or transportation costs). The full value of such commodities is recorded as both a revenue at the time of receipt of the commodities and as an expense when the commodities are used.

Double Entry Bookkeeping - a system of bookkeeping which provides that every entry on the debit side of an account or accounts be accompanied by an equal entry on the credit side. The double entry system is normally followed in all accounting systems.

Encumbrance - a reservation of appropriations for expenditure.

Equity - the difference between total assets and total liabilities. In fund accounting, the term fund balance is used instead of equity.

Expenditure - the acquisition of a liability, the payment of cash, or the transfer of property for the purpose of acquiring an asset or service.

Expense - a cost or asset which has been consumed in the gaining of revenues.

Fixed Assets - those items which will be consumed over a period of several years.

Food Cost - in school food service fund accounting, the total value of food used during the accounting period. In determining value, the actual cost of food purchased at market price, plus storage, handling, and freight cost is used, and market value is used for food received free, or at reduced prices.

Full Sales Value - the price at which a meal would be sold if no price reductions were offered.

Function - in school food service fund accounting, a function is a group of services designed to accomplish a particular purpose or activity.

Fund - a sum of money or other resources set aside for a specific purpose or activity. Each fund is a separate accounting entity.

General Ledger - a ledger containing accounts on which all the transactions of an accounting entity are classified. General ledger accounts may provide all the detail necessary for proper management, or they may be in summary form, with the necessary detail provided in subsidiary ledgers.

Gross Price Procedure - the method of accumulating meal sales at full sales value and adjusting the gross sales revenue for price reductions.

Gross Sales Revenue - the combined full sales value of all meals served during an accounting period.

Imprest System - a system for handling disbursements whereby a fixed amount of money is set aside for a particular purpose (e.g., cash register change). At certain intervals, a report of the amount disbursed (or received) is rendered, and the cash is returned to its original level. The total cash, plus unreplenished disbursements (or minus undeposited receipts), must always equal the fixed sum of cash set aside.

Income - revenue earned during an accounting period; not all cash receipts constitute income under the accrual method.

Income and Expense Statement - a summary of revenue and expenses of an accounting entity or group of entities for a particular accounting period. It sometimes is referred to as an operating statement.

Indirect Expense - an expense not easily identifiable with the production of services (or goods) or with a specific program or activity. Indirect expense is contrasted to certain expenses which can be easily identified with specific goods or activities. The borderline between direct and indirect expenses cannot be easily defined and often depends upon the frame of reference. The salary of the cafeteria cook may be a direct cost of the preparation function, but, if the preparation function produces several types of meals (programs), the cook's salary will be an indirect expense when determining the cost of each program type of meal.

Inventory - (1) all food and supplies on hand, or in storage, at the end of an accounting period; (2) a detailed list of property on hand at a given time.

Inventory Turnover - the number resulting from dividing average monthly inventory into average monthly sales.

Invoice - an itemized statement of merchandise shipped or sent to a purchaser with the quantity, data, value, and prices and charges specified.

Journal - any form in which the financial transactions of an accounting entity are formally recorded for the first time, such as a cash receipts journal or check register.

Journal Voucher - a source document on which financial transactions are recorded and authorized for entry into the bookkeeping system when no other appropriate source document (e.g., deposit slip) is available.

Labor Cost - the cost of personnel (as distinguished from supplies and food) attributable to any or all functions or programs during an accounting period.

Ledger - one of the books of account in which the transactions affecting one or more accounts are summarized.

Liabilities - amounts owed to others. Liabilities are frequently subdivided into current liabilities and long-term liabilities.

Liquidation - the payment of a debt (liquidation of liabilities); the collection of amounts owed to the school food service to the school food service fund (liquidation of receivables).

Location Account - in food service fund accounting, the identification of a single fund (school location) within a logical grouping of funds (school districts).

Long-Term Liability - those liabilities which are due and payable in more than a year.

Market Value - the cost of an item under normal market conditions.

Meals per Labor Hour - the number of meals served divided by the total number of direct labor hours during a given accounting period. Frequently, separate figures are calculated for each type of meal served.

Net Working Capital - the difference between current assets and current liabilities.

Object Account (or Classification) - the revenue or expense account that identifies what type of revenue was received or what type of goods or service were procured. In school food service fund accounting, a separate general ledger account is maintained for each object; therefore, "object account" is synonymous for "revenue or expense account."

Operating Statement - an income and expense statement.

Participation - the number of different types of meals served during a given period to various classes of purchasers.

Participation Worksheet - usually used to keep track of participation as meals are served. Special cash register keys may be used for the same purpose.

Payment Voucher - a source document prepared by the school food service fund authorizing payment of a specific amount to another party. Payment vouchers are used when invoices are not received (e.g., for monthly rental payments).

Payroll - the periodic payments made to individuals for services rendered, plus payments to others on behalf of such individuals (such as withholding taxes, hospitalization contributions, etc.).

Periodic Inventory - an inventory system in which no records of inventory levels are maintained and in which a physical inventory is taken at the end of each accounting period. The amount of goods consumed is equal to the beginning inventory, plus purchases during the accounting period, minus ending inventory.

Perpetual Inventory - an inventory for which records are maintained that will show the value of the inventory at any time. To accomplish this, all additions and withdrawals from inventory must be recorded as they take place. Such an inventory system may not be used by all school food service funds; rather, a physical inventory at the end of the accounting period may be used to determine "cost of food" for the period.

Petty Cash - a sum of cash set aside for making immediate payments of comparatively small amounts when the preparation of a payment voucher and a check would be too time consuming and expensive.

Petty Cash Slip - a source document used to provide documentation for any petty cash used and to provide a means for recording the disbursement in a journal.

Physical Inventory - an inventory determined by actual observation, counting, weighing, or measuring the items on hand. It is normally taken at the end of an accounting period.

Position Statement - a balance sheet.

Posting - the act of transferring the detailed or summarized data contained in the books of original entry to an account in a ledger.

Profit - the result of excess revenues earned in a given accounting period over costs incurred during the period.

Program - in school food service fund accounting, the source (type of meal) of revenue or expense.

Pro rating - the act of allocating undistributed costs or revenues to functions or programs in proportion to the benefit received by the functions or programs. A "pro rated" share is a proportional share.

Purchase Listing - a source document authorizing a vendor to deliver specified goods or services and to make a charge for them.

Purchase Requisition - a written request from one department to another or to the purchasing officer to purchase needed goods or services.

Purchased Commodity - a commodity procured on the open market, as distinguished from donated commodities which are procured through other means for less than the normal market price.

Purchases - the total goods and services received from vendors during the accounting period, regardless of when they were ordered or when payment is made.

Receivables - amounts owed to the school food service fund.

Receiving Report - a form used in the school food service accounting system which certifies that goods ordered and billed by the vendor have actually been received. A purchase order stub or a copy of a purchase order may be used as a receiving report.

Reimbursement - a cash payment to a school food service fund made by a federal, state, or local agency. Reimbursement is made at a specific rate (e.g., cost per lunch) or a specific cost, or a percentage of such costs.

Reimbursement Claim Form - a report (essentially an invoice) to the state educational agency (or FNS regional office, where applicable) detailing allowable costs incurred during a specific period and requesting reimbursement of such costs. Other data also are included.

Register - a book used to record a single class of transactions. Registers normally function as journals, but they may also serve as subsidiary ledgers. For example, a check register (check book) kept in sufficient detail may serve as both a cash disbursements journal and as a cash account ledger.

Revenue - the gross increase in equity during an accounting period. In school food service fund accounting, revenue includes the value of meals served, plus reimbursement earned and the value of donated commodities received.

SAMP (Special Assistance Milk Program) - milk served to needy children at no charge, other than the first half pint of milk served as part of the type A lunch or breakfast. Schools must be approved to participate in the Special Assistance Milk Program.

Satellite Service - a place where meals are served that is a different location from the central preparation site.

SMP (Special Milk Program) - milk served to children at a reduced price or at no charge other than the first half pint of milk served as part of the type A lunch or as part of the breakfast. Schools must be approved to participate in the Special Milk Program.

Standard Meal Cost - the predetermined (essentially) average cost of a particular type of meal (e.g., type A lunch) used to help control costs and to allocate food costs to programs.

Statement of Changes in Financial Position - a report which summarizes the effect of financial transactions on the cash account, and also reflects other important transactions not affecting the cash account.

Stores - food and supplies inventory.

Subsidiary Account - One of several accounts maintained in greater detail than a general ledger account. Its total is equal to that in the general ledger account.

Subsidiary Ledger - a supporting ledger consisting of a group of accounts whose total is equal to a single general ledger account or to a group of related general ledger accounts. In school food service fund accounting, a subsidiary ledger will be maintained for revenue accounts (broken down by program) and expenditure accounts (broken down by function).

Summary Account - an account which represents a summary of general ledger accounts.

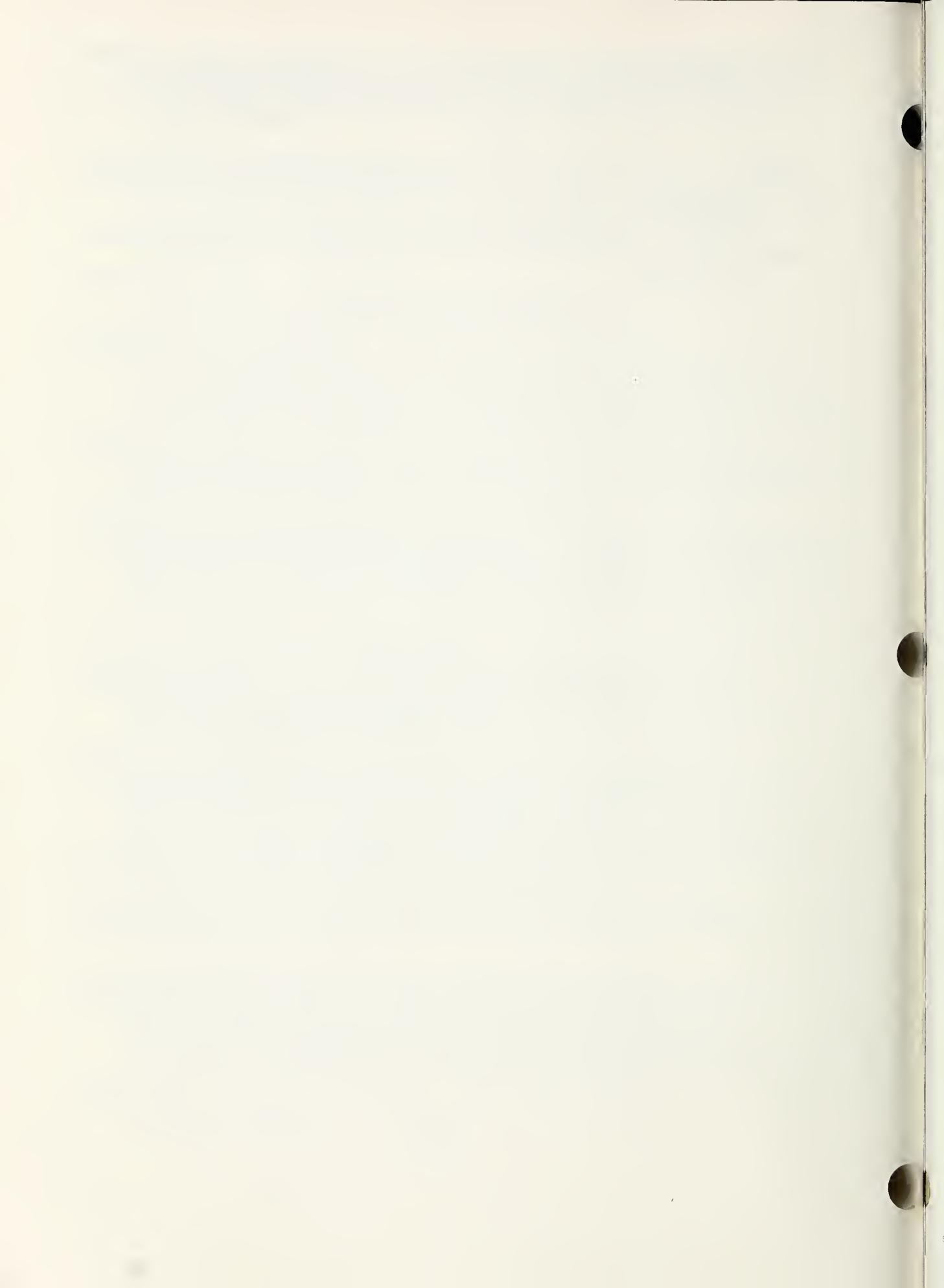
Time and Attendance Sheet - a source document that shows the hours worked by an individual during a specific period, as well as hours of personal and sick leave taken. Time and attendance sheets are used to accumulate labor costs during an accounting period.

Transaction - an event or condition, which gives rise to an entry in accounting records.

Trial Balance - a list, or abstract, of the balances, or the total debits and total credits, of the accounts in the general ledger. Its purpose is to determine the equality of posted debits and credits and to establish a basic summary for financial statements.

Variance - the difference for the accounting period between the actual cost of food sold and the total standard cost based on standard meal costs.

Vendor Invoice - an invoice or bill from a vendor for purchased goods or services.



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